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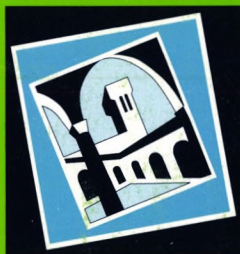
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and the Crisis
of Swedish Social Democracy

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**Neoliberal Globalization and
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I. INTRODUCTION

Swedish social democracy is in crisis. Hopes (or fears) that Sweden would undergo a democratic socialist transformation have been dashed for some time (Pontusson, 1987). But furthermore, it has become increasingly clear in the 1990s that welfare capitalism is being dismantled to facilitate "self-regulating markets" also in Sweden. Mass unemployment has become a reality in what previously was the model of a full employment society. Moreover successive budgets and crisis packages - "bourgeois", Social Democratic, and multipartisan - have reduced social insurance entitlement-levels and services. Some may suggest that "crisis" is too strong a word to describe this. They may point to the fact that Sweden's economy is being "restabilized" at an impressive rate, with still comparatively high levels of welfare entitlements and low levels of poverty. But this is to miss the point. First, continued low rates of GDP- and productivity growth and high levels of unemployment will result in further cutbacks that, in turn, will undermine what is left of the universalist welfare state. Second, the present direction of state policy is totally out of step with public opinion. This indicates that there is a profound divide between the increasingly neoliberal paradigm of Swedish elites and the continued welfarist "common sense" of the Swedish people (Svallfors, 1989; 1996). There is, in other words, a crisis of representation and hegemony (Gramsci, 1971).

How should one make sense of this crisis? I suggest that one starts with the rather obvious premise that Sweden is a small country dependent on its international environment. This reality is generally acknowledged, but the consequences are rarely taken in works on the Swedish Model. Generally cast in a comparativist mould, where the nation state is the ultimate "unit of analysis", they do not consider the specificity of the global conditions of existence of

national institutions (cf. Gourevitch, 1976). Despite their essential contributions, I would argue that a one-sided comparativist focus cannot generate an adequate understanding of the problem at hand. This is because the Swedish Model fundamentally presupposed the post World War II "embedded liberal" world order and the process of neoliberal globalization is central to its crisis. This article seeks to demonstrate this. It accounts for the distinct but integral domestic and global politico-economic forces that underpinned and undermined the Swedish Model.

The studies of Katzenstein (1983; 1985) and Mjøsset et.al (1986; 1987) have already contributed to such an analysis. Katzenstein develops a useful structural functional account of how the Swedish Model, as one of the "small corporatist states", succeeded to mediate international competitiveness with extensive social welfare provision. But the validity of his account is only restricted to the postwar order, and he cannot deal with the implications of neoliberal globalization. Mjøsset et.al's regulation theoretical study goes beyond Katzenstein's work in this regard. It probes the world economic dynamics of the crisis of Fordism, and their implications for Nordic welfare capitalism. Hence this important work accounts for the implications for the Swedish Model of technological and organizational mutations in the social relations of production and in the world economy. But, like much of regulation theory, it fails to integrate a rigorous analysis of political and ideological processes, with the analysis of narrowly conceived economic processes.

Historical-structural, critical International Political Economy, as defined by Cox (1981; 1987: 1-9) could provide important relief here. This article follows Cox's general framework and method, which considers "politics" and "economics", "world order" and "forms of state" as temporally bounded and integral parts of an interactive totality of power and production relations. But

before this approach can effectively address my problematic, it must undergo further elaboration and development. This is, of course, inherent to the approach itself. "Historicist concepts" must always be elaborated in the concrete context in which they are applied (Braudel, 1958; Cox, 1983). But in addition, further conceptual refinement is needed on a more general and abstract level, to facilitate persuasive analysis of the interrelations of world order dynamics and state-society complexes. First, a political economy analysis of historic blocs require a regulation-theoretical dimension to explain how circuits of capital accumulation are politically stabilized into reproductive orders.² Second, much more attention must be given to the institutional forms through which regulation and social representation takes place. Despite the label "form of state", Cox tends to treat state relations rather instrumentally, as epiphenomena of substantive hegemonic ideology.

The overall theme of my argument is that it is important to neither reduce the crisis of social democracy to a set of external constraints totally outside the control of social democratic actors, nor to argue that nothing fundamental in the structural environment has changed, and that the crisis is simply an effect of a betrayal of ideas by social democratic elites. The former approach ignores actual tactical and strategic failures of actors, fails to appreciate alternative options and strategies that might have been pursued and that might provide lessons also for the future. The latter approach ignores the profound structural change that has taken place, and that has redefined the terms of social democratic politics. What I attempt to do here is to provide a careful reconstruction of the interconnected and overdetermined relationships of structure and agency that have generated the crisis of Swedish social democracy and redefined the strategic terrain of such a politics.

The article is divided into three parts, and the actual analysis of the crisis

of Swedish social democracy as such is suspended to the last part. This is because this analysis presupposes an explanation of what the shift from an embedded liberal world order to "neoliberal globalization" actually entails (part one). The analysis of a crisis also presupposes a specification of what actually is in crisis. Hence, the second part accounts for the *modus operandi* and conditions of existence of the Swedish Model.

II. NEOLIBERAL GLOBALIZATION

I understand neoliberal globalization to express a *historic bloc in formation*, which is emerging on the terrain of the crisis of the embedded liberal bloc of Pax Americana (Ruggie, 1983). It involves at its economic core highly constraining infrastructural technological developments. But equally important, it also entails developments of a more contingent nature. Socio-economically this formation entails a shift away from Fordist *ex ante* integrated mass production and consumption to an emphasis on automation, flexible specialization, internationalization of production, a reduction of turnover time, and risk management. Socio-politically it entails the tendential developments of new constitutionalist forms of rule and a transnationally hegemonic neo-liberal social purpose. Its project is to deepen and extend commodification of social life; that is, to universalize a form of social integration that is based on the logic of self-regulating markets. Although strong forces are pulling for this formation, its institutional stability is not yet ensured. This section elaborates on central properties and contradictions of this world order development, and contrasts it with the preceding embedded liberal order.

Changing Régimes of Capital Accumulation

While American hegemony ensured the survival of capitalism after World War II, production norms and the power balance of social forces limited the scope and extent of commodification. *Embedded* liberalism was based on a "politics of productivity" (Maier, 1977), typically forged by forces associated with industrial capital, organized labour, and reformist technocrats. It ensured collective bargaining rights, low unemployment levels and high social wages for organized labour in exchange for the acceptance of the right for management to

manage and peaceful industrial relations. As a result of the ensuing "labour peace", production could be organized according to Taylorist principles, applying product specific machinery on a large scale. The productivity increases that resulted, together with *ex ante* integrated Fordist wage norms, Keynesian economic policy, and sometimes Beveridgian social policy, ensured coherent intensive regimes of accumulation, that provided a co-evolution of non-inflationary growth and increased standards of living (Lipietz, 1987: 24-32).² An important precondition for this mode of regulation was the subordination of "circulation forms" of capital (which tend to favour market clearing and price stability), to "productive capital" (which in Fordist/Taylorist conditions tended to favour returns to scale), facilitated by the 1929 Wall Street crash, the New Deal, the collapse of the liberal trade system in the 1930s, and wartime economic planning (van der Pijl, 1984; 1995).

The "stagflation crisis" of the 1970s signalled the end to this Fordist form of accumulation. A catalyst to stagflation was the pricing-strategy of OPEC, but more fundamentally it was an expression of Taylorist production norms reaching their socio-technological frontiers. Productivity growth declined, and could no longer underwrite aggregate demand expansion (Lipietz, 1987). Since the world recession of 1979-80 a new form of capital accumulation is emerging, and it constitutes the "economic core" of neoliberal globalization. "Post-Fordism" entails a refraction of production relations in a number of identifiable dimensions. With the rise of a new core technology (informatics and computer technology based on the "microchip revolution"), which facilitates the optimization of allocation decisions, and increases productivity by breaking down information bottlenecks, the process of *internationalization of production* has accelerated (Kaplinsky 1984). Cybernetics also imply a secular trend of *substitution of labour for capital in production*. Moreover, this core technology

has radically altered the terms of the organization of the labour process. Cybernetics can now be used to create "general purpose" machines, that facilitate competition through "*flexible specialization*", rather than "economies of scale" (Piore and Sabel 1984: 194-280). These new terms for corporate strategy make more ambiguous the relationship between the economies of scope and scale. As a result, productive capital tends to perceive less of a dependence on nationally generated mass consumption.

A second, more spectacular aspect of economic globalization is the transformation of international monetary institutions and global financial markets. This was in part due to the maturation and crisis of Fordism, leading to an expansion of international commerce and demand for credit (the "fiscal crises" of states). But the development has been enhanced and gained momentum through the revolution of information technology. The emergence of the "Eurodollar-" and other "offshore" markets, the flexible exchange rate system, mounting government debt, and the growing asymmetries between creditor and debtor nations radically increased the velocity and volume of capital flows and the demand for credit supplied by the private sector. These secular trends, together with the absence of action of states, have radically altered the sources and forms of movement of international credit. The "quasi-public" multilateral credit system of Bretton Woods has given way to a deeply commodified, market mediated, "private, multi-centred, global" credit system (Germain, 1992). Consequently high finance has become so powerful in the allocation of economic resources that it has been described as the pivotal agent in the formation of the emerging global hegemony (Cox, 1987: 267). Economically, this reflects a subsumption of productive forms of capital to circulation forms of capital. Rentier profit has increased in importance relative to profit from production, and increasingly, accumulation is sustained through a decrease in turnover time.³ and

the reduction of labour costs, rather than through productivity increases and mass consumption (van der Pijl, 1984: 265-86; 1995: ; Harvey, 1990: chs. 10 and 11).

This changing form of capital accumulation has certainly changed the cost-benefit structure of capitalists in relation to the welfare state. But not only have the interests of capital changed in favour of deeper commodification, individuation, and market clearing; and against public welfare provision and collective bargaining. The structural power of capital to realize its preferred forms of accumulation and regulation has increased as a result of an emerging *territorial non-correspondence* (pace Murray, 1971) between markets and states (Gill and Law, 1989). Through transnational mobility, capital can counter attempts at regulation by states - which in this context are in competition for scarce investment resources - and make the essence of the *raison d'etat* to count to this structural power. "Business confidence", now more than ever, determines the direction of capital flows, the availability of finance, and future investments, upon which future production, employment, and tax revenue depends.

Some would argue that the term "globalization" expresses nothing more than the bourgeois ideological obfuscation of this change of the spatial fix of capital accumulation, and its attendant effects on social power relations.⁴ There is much to be said for this, as a reaction against cliché-ridden phrases on the "need to adjust to the global market-place". But one must not forget that the ideology is part of the reality that needs to be explained. Particular forms of capital accumulation depend on particular forms of regulation. These are only adequately analyzed with reference not only to economic, but also political and ideological factors.

"New Constitutionalism" and the "G-7 Nexus"

There is nothing inherently neo-liberal in the technology of the new forces

of production as such. One important insight of Piore and Sabel's (1984) pioneering work on flexible specialization remains valid: technological shifts are to some extent open ended, and many forms of "post-Fordism" can be conceived. Indeed, as they and others have argued (eg. Leborgne and Lipietz, 1988; Boyer, 1991), general purpose machines may be more efficiently appropriated in more collectivist production paradigms emphasizing functional flexibility through codetermination, and the public goods of training and R&D. Moreover, global finance has not re-emerged as a consequence or dimension of post-Fordism. IPE literature has since long persuasively argued that the breakdown of Bretton Woods depended decisively on more strictly political factors (eg Strange, 1986; Block, 1977). The early initiatives of financial deregulation did not so much reflect a neoliberal hegemonic strategy as short sightedness, actions informed by state interest without an "ethico-political" resolve to sustain the embedded liberal monetary regime (expressing hegemonic crisis). But since the "Volcker-shock" in 1979, monetarist policy coordination and capital deregulation has increasingly been driven by a hegemonic neoliberal strategy (Helleiner, 1994: 123-68). The emerging neoliberal form of rule and transnational macroeconomic regulation is based on what Stephen Gill (1991; 1992; 1993) has called a "new constitutionalism".

New constitutionalism contrasts sharply with the "double screen" of the Bretton Woods. The latter was sustained by the dollar-based fixed exchange rate regime, and public multilateral norms governing capital controls and flows. The purpose of the double screen was to facilitate a simultaneous balance of both international and domestic economic activity close to full employment.⁵ As a result, North-North trade could flourish and ensure a mutual validation of the Fordist intensive accumulation regimes in the capitalist core. Expansionist policies in the US, and American foreign direct investment became especially

important to ensure sustained aggregate demand, and to facilitate expansionary policies in West European economies.⁶ The "double screen", however, broke down in the 1970s as the "Triffin's dilemma"⁷ became increasingly acute, and as the US vetoed a public multilateral reform of the monetary regime, based on Special Drawing Rights.

Whereas the double screen ensured the capacity of states to manage aggregate demand and to mitigate market generated social disruptions, new constitutionalism deliberately reshapes state-market boundaries so as to maximize the exposure of states to international capital markets. New constitution implies a deliberate abdication from discretionary state action that violates market norms (the metaphor of Ulysses tying himself to the mast is often invoked). Thereby the classical liberal separation between state- and economic forms is *politically* enforced. The purpose is to create a buffer against demands for protection against market effects, and to discipline social actors to conform to market constraints and criteria. Globalization, then, is not only a matter of the structural power of capital constraining states. State-actors deliberately mobilize the structural power of global capital in a neoliberal strategy (Panitch, 1994). This is the political *Raison d'être* behind the increased emphasis on Central Bank autonomy, and capital and currency deregulation. An important effect of this is that a neoliberal variant of post-Fordism is promoted, as, for example, unemployment generated by austerity policies reduces the bargaining power of organized labour on the shopfloor.

It is a misunderstanding that globalization equals the end of the nation state. National agencies and instruments of economic policy, and by extension the inter-state system, have remained central to new constitutionalism. The territorial non-correspondence between the operation of markets and states has been important to ensure the "exit option" of capital (there has to be something

from which to exit). Consequently, positive international economic policy, for example coordination monetary and exchange rate policy, takes place through loose, ad hoc "inter-governmental" arrangements, within general constitutive framework-arrangements like free trade treaties. As in the embedded liberal system, this allows for a privileged role for the predominant state, what neo-realists call "the hegemon", to shape intergovernmentalism and to reap certain exclusive benefits. Despite a "relative" decline the United States has retained this position (Strange, 1987). But apart from the change from an embedded- to a neoliberal social purpose, the US has also pursued a more "minimalist" hegemony since the Reagan presidency (Cafruny, 1989). This implies that the US has used its unique structural power, emanating for example from its "seignorage" position of providing the world currency, to pursue a narrow self interest policy to sustain domestic economic growth at the expense of the world economy as a whole (eg Davis, 1984; Lipietz, 1989).⁸ Most significantly perhaps was the American macroeconomic policy stance in the 1980s. The combination of an expansionary fiscal policy (due to military expenditure and tax cuts) and tight monetary policy drained liquidity and finance from international markets. This is of course in sharp contrast to the role played by the US as a supplier of liquidity and finance in the Bretton Woods system.

This loose articulation of *formal policy mechanisms* is accompanied by a tighter articulation of a common substantive *hegemonic strategy* of a transnational power bloc, that can aptly be labelled the "G7-nexus" (Gill, 1993, 1994). Its cohesion is articulated through private-informal fora (such as the Trilateral Commission and the Pinay Circle), as well as public-formal fora (such as the OECD, IMF and the Bank of International Settlements) (Gill, 1990; 1994; van der Pijl, 1984; 1995). It also permeates key branches of state structures, such as Ministries of Finance and Central Banks, in part through their connection to

these transnational fora. Apart from its neoliberal ideology, this power bloc differs from the embedded liberal bloc in its exclusion of organized labour, and in its lack of tolerance of autonomy of the technocratic managerial strata from business interests, and the subordination of productive capital to financial capital (*Ibid.*).

In order to trace this socio-political dimension of neoliberal globalization, one needs to go back to consider the reaction of elites against the international radicalization wave in the early 1970s, that was interpreted as "a crisis of governability" (Huntington). This highlights how conditional the "embedded" dimension of Pax Americana actually was. The welfarist material concessions after World War II need to be considered in the context of the Cold War, and the need to integrate the highly organized European working class, with socialist propensities. Union cadres served an important function in producing mass consent to American hegemony (van der Pijl, 1984). But the material concessions had to be consistent with capital accumulation and American geo-political strategy. Social democrats, organized labour, and even left-liberals broke with these terms when they attempted to co-opt, but also accommodate, peace activists, Third World advocates, feminists, and rank and file militants reacting against the discrepancy of the myth and reality of "the affluent society". But these political expressions of legitimation crisis did not form into a coherent counter-hegemonic force. Moreover, the attendant extension of welfare reform and the New International Economic Order that were nevertheless attempted contradicted with business interests. It was in the context of this failed radicalization wave, the economic problems of stagflation, and what was considered the potentially subversive effects of inflationary Keynesianism, that business and economic policy elites successfully took an increasingly antagonistic stance against unions, economic regulation, and the welfare state. The US victory in what Halliday

(1986) has called the "Second Cold War" enhanced this tendency.

Tensions and Contradictions

The prospects of success of the emerging transnational power bloc should not be underestimated. Many, notably neo-realists, have pointed to the absence of a single dominating state to provide the international public goods for global cooperation. However, in the new era, with a structurally different relationship between markets and states, a transnational power bloc may not need such a realist "hegemon". According to Helleiner (1992), hyper-liberal financial and monetary regimes (as opposed to Keynesian ones), based on private multi centric finance, might function better without a dominant state.⁹ Since accumulation is ensured through decreased turnover time, cost-cutting, and labour shedding, rather than through an articulation of mass consumption and mass production, the deflationary effects of neo-liberalism may not be as detrimental to capital accumulation as they would have been on the Fordist era (Harvey, 1990). In a nutshell, neo-liberalism may be viable because the ability of transnational capital to regulate itself has increased. At the same time, the capacity of the nation state to pursue market inhibiting regulation has decreased, and the social forces which stand to benefit from such regulation find it increasingly difficult to organize the relational power necessary to make politically effective demands.

On the other hand, a global neo-liberal order is not predestined to sustain itself. After the "Reagan Boom", an increasingly self-regulating capitalism is characterized by deep recessions and extremely sluggish recoveries, that seem as no more than a pause for the next recession. In this context, high real interest rates produced by the interaction between the private multi-centric financial system and states in fiscal crisis, and budget cutbacks may prove to be fatal. Also, deregulation of labour markets may not provide for the most efficient

adaptation of "post-Fordist" flexible specialization. It may hinder the acquisition of public goods such as training of skilled labour, and a fertile cooperative workplace environment where "learning by doing" can be exploited to the fullest (Hyman and Streeck, 1988; Leborgne and Lipietz, 1988). In addition, the shortening of time horizons in investment and the rents paid to the financial sector to manage the risk it largely generates itself (Strange, 1986) may hinder a sustained, paradigmatic shift into the new technological growth trajectory altogether unless effective demand can be boosted. Thus, it may be that the capitalist accumulation process has not freed itself from the imperative of returns to scale (Boyer, 1987: 10-16; 1991). On the socio-political level, the increased inequalities, implied in the dismantling of the welfare state, mass unemployment, the polarization of the labour market, as well as the failure of the neo-liberal regime to manage environmental crises generate antagonisms and social forces which may yet challenge the order. The gordian knot for such social forces, however, is to mobilize and link sufficient power on the local, national, and global level to challenge the structural power of capital.

There are also important antagonisms at the core of the G-7 nexus. Although the pivotal globalizing elite-stratum is in agreement on the need to exert monetarist discipline, and reduce social public consumption, there are significant differences in outlook on how to regulate the world economy. The principal division runs between financial consortia and states of the Anglo-Saxon heartland, and those of continental Europe ("Rhineland Capitalism") and Japan (van der Pijl, 1995). In the latter regions there are strong state capitalist traditions, productive capital is still relatively prominent and social democracy and/or traditional conservatism are relatively strong as political movements. Here one tends to find support for "compensatory liberalism" (Gill, 1994). The ideology of compensatory liberalism differs from Thatcherite/Reaganite hyper-

liberalism in that in certain instances it pragmatically promotes the displacement of market mechanism in favour of public norms, for the purpose of ensuring consistency and disciplining certain collective actors so they will act according to market rationality (e.g fixed exchange rate norms rather than floating exchange rates, and public targets for borrowing and inflation rates). Compensatory liberalism may come into conflict with hyper-liberalism on a transnational level, where the former ideology may promote "strong" transnational regimes of constitutionalist regulation, while the latter would rather abstain from such regulation and "leave things to the market".

The hyper-liberal/compensatory liberal divide is also significant in relation to the forging of popular consent. While it predominates in policy discourse, neo-liberalism has not been diffused adequately to the popular strata in the "Rhineland capitalist" areas. Social Democratic and Christian Democratic parties may have adopted neoliberal policies, but in the popular arena they still tend to stick to their traditional welfarist images and discourse. This is in sharp contrast, of course, with the populism of Thatcher and Reagan, who also managed to restructure the "common sense" of civil society (Hall, 1988). This lack of a fusion between policy and a positive popular project makes "compensatory liberalism" politically unstable and vulnerable.

The conflict between compensatory- and hyper-liberals is related to the basic paradox of capitalist socialization, that the private realm must be politically constituted: "*Laissez faire* is planned" (Polanyi, 1944). While capitalism is essentially based on self-regulation, such regulation can only take place within the framework of law (especially contract law) and order, when certain common standards are set, and when certain "public goods" are provided. This need for social regulation is experienced more acutely by productive capital-fractions than circulation-fractions, since they are confronted with more concrete problems in

the process of realizing profit (e.g. the need for stable labour conditions, technical standardizations and innovations, the assurance of a stable capital-value of machinery.) This paradox of *laissez faire* actually points to its limits, and opens spaces for resistance, compromise, and the undermining of the logic of commodification, and counter-hegemonic projects. Capital is dependent upon the public realm, which in turn depends on legitimation and mass loyalty, vulnerable to popular mobilization. The territorial non-correspondence of globalization blunts the force of these counter-tendencies. But they are re-emerging on macroregional terrains. Regional economic integration requires standards for goods, patents, dispute-settlement mechanisms, and currency stability. This requirement for capital has a tendency to contradict the territorial non-correspondence, and provides a site on which questions beyond, and even against, the interests of capital can be brought onto the agenda. Hence the formation of macroeconomic blocs become important in the search for alternatives to neoliberalism.

Consider, for example, the process behind "Europe 1992". It reflected the global developments outlined above (eg Holman, 1992). The creation of the single market, as laid out in Lord Cockfield's White Paper is quite consistent with the neo-liberal strategy on a global scale. The principle of "subsidiarity" can be seen as a cunning attempt to ensure simultaneously sufficient common norms, while ensuring the territorial non-correspondence of new constitutionalism (see Grahl & Teague, 1989). However, behind the consensus over the single market one can discern the attempt to assert a competing accumulation strategy. The Social Democratic federalist ex-President of the Commission, Jacques Delors, envisioned a transnational "neo-Fordist" Europe, where regimes of social and environmental standards, transnational macroeconomic policy regimes, and a Community wide industrial policy not only would sustain welfare capitalism, but

would also diffuse it to the periphery. Delors advanced this agenda by pursuing a "Russian doll" strategy, where at every stage of integration, he managed to secure vague commitments from member states for further regulation, which he then vigorously pursued at timely moments (Ross, 1992).

But this vision has been hampered not only by the political weakness of European Social Democracy and the labour movement, it has also been rendered improbable by the daunting task of creating the required new transnational institutions. Unanimity is required to make the Social Charter binding. At the present it is merely a diluted statement of principles, a dilution that reflects the compromises necessary to make it exist at all. Moreover, by using the "exit" option, and tactical alliances with various other members, Britain has managed to stall any real progress on "social Europe" (Rhodes, 1991). The compromises of the Maastricht Accord has had the effect of creating a European Union consistent with compensatory liberalism, reflecting the strength of continental christian democracy, and hyper-liberal and social democratic forces "cancelling each other out". There is no legal clout in the social commitments of Maastricht.

There is, however, a commitment to a transnational macroeconomic policy implied in the Monetary Union. But the institutional design of the EMU reflects the monetarist objectives of the Bundesbank, not a Social Democratic neo-Fordist Europe. It is important to emphasize, though, that Maastricht does not signify a stable crystallization of EC/EU institutions. The speculative financial movements of 1993 effectively destroyed the EMS as it was, and has made the EMU-project very problematic to implement. The response of this has been to implement "Maastricht convergence programs" in member-countries, demanding unpopular budgetary cutbacks that further enforce austerity tendencies and unemployment rates. But even Germany has serious difficulties to meet the criteria, and it is an open question to what extent compensatory liberals can cut in

what remains of the welfare state, without jeopardizing popular-political power. In other words, at least in Europe, a stable order has not yet crystallized, and in the longer term the actual content of monetary and economic union might be open for contest. As a result, rather than being an instrument to enforce new-constitutionalism it might become an instrument that undermines it.

III. THE SWEDISH MODEL

The definitional account of world order developments of the previous section was necessary to support my thesis, that the Swedish Model presupposed the postwar embedded liberal order and that neoliberal globalization is central to its crisis. The rest of the paper is devoted to the pursuit of this argument. The embedded liberal order of the postwar period was created in the image of, and reflected the interests of, the specifically American growth and productivity coalition forged through the New Deal. But this world order was also consistent with the power blocs of other Western states. This hegemonic consent was partly based upon socio-political convergence, and partly upon American political and ideological intervention, which purged unacceptable radical elements from the other Western power blocs. Pax Americana did set definite limits to possible variations. But this is not to say that there were no important variations between the Western state-society complexes. They ranged from the relatively market oriented, "residual" welfare states of the Anglo-Saxon world, to the dirigiste models of state capitalism of France and Japan, and the meso-corporatist organized-capitalist German Model. They also included the labour inclusive "institutional", Social Democratic, welfare capitalism of Scandinavia. These variations matter both with regards to comparative economic performance and outcome, and they generated variations in crisis trajectories. Here the distinctiveness and specificity of the Swedish Model is described, with due attention to its interpellation into "Pax Americana".

Social Democratic Hegemony

Because the formative events that forged Sweden's politics of productivity took place already in the 1930s, a certain distinctiveness of the Swedish Model vis a vis the American New Deal could be maintained. Whilst by no means

without external theoretical, ideological, and cultural influences, the Swedish Model was decisively forged "organically" and internally. One distinct dimension of the Swedish Model was the national-popular, hegemonic, role played by the reformist-socialist labour movement. The Swedish labour movement was one of the very few movements with Second International roots, that acquired a hegemonic role in the postwar period. As Korpi (1978; 1983) and Esping-Andersen (1985a; 1985b) have argued, this "historic compromise" had to reflect the social image and promote the articulated interests of the labour movement in a manner that was not possible where labour movements played a more subordinate role. The "social citizenship state" was based on full employment, "de-commodified" distribution and universal provision of social benefits. This not only presupposed, but also served to reproduce solidarity, unity and hence mobilizational power of the labour.

An important aspect of social democratic hegemony was that the labour movement managed to forge and maintain an alliance with agrarian forces. This prevented the formation of an alliance between financiers, industrialists, and agrarian interests; alliances that tended to water down the interventionist density in the mode of regulation in favour of market norms (Gourevitch, 1978; Weir and Skocpol, 1985). This point is of crucial significance. It made possible in Sweden a "Kaleckian" (1943) mode of regulation, with a principled commitment to full employment. In the typical liberal, American and "vulgar" Keynesianism that emerged after the war, employment merely became one variable in the policy matrix of stability.¹⁰

The hegemonic position of social democracy should not be seen as inconsistent with the existence of capitalist relations of production, or a capitalist "ruling class" in the structuralist Marxist sense. Most fundamentally, ownership in Sweden remained in private hands as did the imperative of the state to perform

its basic functions for capital accumulation. This implied that the structural power of capital inherent in the valorization process remained as a significant force, particularly because of the export-dependence of the Swedish economy. Swedish capital was also highly organized into three bank-centred spheres of interlocking owner- and directorships (Hermansson, 1989). This internal coherence was enhanced by the influential role played by the employers' association, SAF, representing employers in collective bargaining. Indeed, it enabled SAF to take the initiative - albeit in response to union power - in shaping Sweden's centralist collective bargaining arrangements (Fulcher, 1991). This coherence also ensured for SAF a certain influence over state policy. But rather than mobilizing an ideology of "national popular leadership" SAF's strategy vis a vis the state was to provide "technical advice" through participation in public commissions, tripartite boards, and through the creation and financing of research institutes (eg. Söderpalm, 1976; Therborn, 1989: 146-49). This was a "non hegemonic" accumulation strategy: economic-corporate interests of business were promoted and their private economic prerogatives of ownership and control of the means of production were guarded, but within an ethico-political framework primarily shaped by the social democrats (Ryner, 1996).

The Swedish Model not only implied a balance of power and compromise of competing material interests, but also an intersubjective "consensus". This consensus should not be understood in terms of total agreement. The major actors had their different understandings of the Swedish Model (Jenson and Mahon, 1993 cf. Pekkarinen, 1989): It could be seen as a modernization of capitalism rendering class struggle and ideology irrelevant, a "middle way", or as a stage on the way to socialism. These interpretations corresponded to competing interests. For organized capital, the Swedish Model provided a way to cope with labour costs in a tight, densely organized labour market, to avert strikes and the free-

rider problem in wage setting (Swenson, 1991). For organized labour the Swedish Model ensured increased real wages for its members, job security, and a means to reproduce a "moral" conception of wage distribution within the labour collective (Swenson, 1989).¹¹

The central articulating principle of this consensus was "rationalization". It facilitated communication and mediation for compromises and policy formation (De Geer, 1978; Johansson, 1989; Hirdman, 1992; Ryner, 1996: 104-15). Business elites were interpellated to the rationalization discourse through "scientific management", which when extended to public policy also provided a business rationale for certain social reforms (health and safety norms, education, population policy). Labour was interpellated into this discourse through reformist-Marxist and proto-Marxist interpretations emphasizing the emancipatory potential of "organized capitalism" (Prominent intellectual influences were Austro-Marxist of Otto Bauer, but also domestic variants of Ernst Wigforss, Gustav Möller, Nils Karleby, and LO's Sigfrid Hansson. Academic intellectuals of the functionalist movement, in economics, engineering, social work and architecture played a particularly important role in formulating and forging compromises between the social groups. A particularly important role was played by economists of the Stockholm School - eg Gunnar Myrdal and Bertil Ohlin.

This primacy on domestic factors in the forging of hegemony and Swedish neutrality notwithstanding, the Swedish Model was a part of the socio-political order of Pax Americana. Sweden's Grotian-legalist foreign policy (Möller, 1988), providing a synthesis of the Wilsonian-liberal and revisionist-socialist internationalism of the 1920s and the "realist" neutrality during World War II, was consistent with participation in for example the United Nations system and the OEEC. As a member of a community of sovereign states, Sweden reserved

the right to shape its own development, while nevertheless participating in the fora of this community. Furthermore, during the more radical phase of the New Deal in the 1930s, some prominent social democratic intellectuals such as the Myrdals even identified very strongly with the "rationalism" American welfare reform, which they contrasted with European developments (Myrdal and Myrdal, 1943). Swedish social democrats identified with what Harvey (1990) describes to be the unambivalent modernity of Americanism, which contrasted with the ambivalence of inter-war Europe. The Swedish business community straightforwardly advocated an Anglo-Saxon, "social liberal" type of welfare provision, and belonged to the mainstream of the Atlantic corporate liberal nexus. In the early postwar period, the business community also successfully contained more dirigiste forms of industrial policy, advocated by the Social Democrats. They did so by successfully invoking Cold War metaphors against "planning" in the elections of 1946 and 1948 (Sainsbury, 1980). However, important in this context was also that the international boom, catalyzed by the Marshall Plan "empirically demonstrated" for social democrats that the existing state-market mix was adequate to ensure their aims (Lewin, 1967).

"Disarticulated Fordism" and the Rehn-Meidner Model

The Swedish postwar economy had important specific characteristics, that made it dependent on the world order. This applies both to its particular type of "disarticulated Fordist" structure and its "Kaleckian" mode of regulation, codified in the Rehn-Meidner model.

The somewhat counter-intuitive term "disarticulated Fordism" requires some elaboration.¹² Fordist growth was autocentric, typically articulating mass production and mass consumption. Accumulation was stabilized *ex ante* through the development of relatively self referential and differential domestic productive

systems. In this context, international trade may play an important but nevertheless auxiliary role in capital accumulation. Despite the progressive increase of international trade in the postwar period, capital accumulation conformed to the Fordist ideal type in the large industrialized countries. They developed differentiated industrial structures first behind the trade barriers of the immediate postwar period, and then maintained industrial diversity because increased trade was of an intra-industry as opposed to inter-industry nature (Mjøsset et.al., 1986: 70-71; Ruggie, 1983: 216-17, both cf. Cooper 1980). In addition, significant international connections were restricted to trade relationships. Productive and financial capital tended to be of a national character, up until the development of the "offshore" Euro-dollar markets in the late 1960s.¹³

Sweden's postwar economy, however, diverged from this pattern as far as the relationship between capital accumulation and trade is concerned. Here, mass production was relatively undiversified, whereas mass consumption was diversified and the circuit of capital accumulation was very trade dependent. Mass production was dependent upon demand in the world economy, and mass consumption was dependent upon imports, financed by foreign exchange earned from high value added commodities in the export sector. The latter was composed by a few large firms, and had a narrow product composition (machine-tool manufacturing, semiprocessed raw materials such as steel, pulp, and later a handful of consumer durable firms emerged - Volvo and Elektrolux). This is not to say that internal mass consumption would not become important for domestic mass production. The success of Swedish corporations such as Tetra-Pak, IKEA, Electrolux, Ericsson, Asea, SAAB and Volvo in developing their products depended on the user-producer networks and demand induced by public domestic consumption (through for example agricultural subsidies, defense,

telecommunications, nuclear power programmes, and housing provisions) and real wage increases (Edquist and Lundvall, 1993). However, the key to the viability of these firms has nevertheless been export performance, not directly domestic demand. Swedish mass production and consumption was mediated by the world market (Mjöset et.al.: pp.72-73, 76-89; 1987: 410).

But Sweden achieved autocentric development despite this disarticulation of production and consumption. The product and process composition developed a high technological potential for productivity increases in relation to scale. Other factors and forms of policy routines than merely aggregate demand management, ensured autocentric accumulation. These included selective forms of labour market policy, coordination of economic policy and wage determination through corporatist arrangements, tight regulation of credit markets, and close to no foreign ownership and control over the means of production (J.O Andersson, 1990: 26-27; Ryner, 1996: 91-130). These crystallized into a "Kaleckian" mode of regulation, that hence not only was required from a legitimation perspective, but for disarticulated Fordist capital accumulation.

This synergy of accumulation and legitimation imperatives find their paradigmatic expression in the so called "Rehn-Meidner model", named after the institutionalist trade union economists, that were its author (LO, 1951). The highly centralized blue-collar union federation, LO, and the Social Democratic government, combined the abovementioned policy elements into a coherent paradigm for economic efficiency and social equity through this model. Rehn and Meidner departed from the premise that full employment and equal pay for equal work, irregardless of the capacity of the individual firm to pay - "solidaristic wage policy", were the central ends. Coordination of centralized wage bargaining and economic policy were the means to ensure this. Full employment provided

LO with the necessary clout in negotiations to exert its solidaristic wage policy, which disciplined Swedish capital to transform and innovate itself so it could afford to pay the centrally negotiated wages. Dynamic firms were awarded stable wage rates despite a tight labour market and powerful unions, but stagnant firms were forced out of business. This in turn released capital that could be invested in the dynamic sectors through the bank-centred credit system, and labour that was channeled to new sectors through labour market policy (especially retraining and moving grants).

The macroeconomic policy stance faced a dilemma here. On the one hand it had to be sufficiently expansionary to sustain full employment. But, on the other hand, it had to be restrictive enough to ensure a low profit to value added rates. If policy was too expansionary, excess demand would allow corporations to pass on labour-costs through inflationary price increases. This would depreciate the real value of work, retard structural transformation, and lead to wage-drift. The latter is voluntary payments over and above collective wage settlements to selective workers, which threatened to lead to distributive conflict between labour groups, and undermine the solidaristic principle. As a result, the Rehn-Meidner model prescribed a relatively restrictive macroeconomic policy stance, and instead argued for more selective policies of intervention, such as labour market policy, collective savings and investment funds, and low interest rates, to ensure adequate investment (see Martin, 1984).

When Korpi and Esping-Andersen discuss de-commodified distribution they tend to emphasize social policy based on citizenship entitlement. However, the Rehn-Meidner model was perhaps even more critical in facilitating de-commodification. Its overall effect was reduced labour segmentation (Åberg, 1984) and an attenuation of market criteria in wage formation (it attenuated the relationship between the profits of individual firms and their wage rate).

Moreover, full employment and solidaristic wage distribution also prevented a fiscal overload on social policy programmes such as unemployment insurance. But the Rehn-Meidner model also made such distribution compatible with capitalist accumulation. Since solidaristic wage policy implied a relative restriction of wage increases in the more dynamic sectors of the economy and punished stagnant firms, it ensured that Sweden's export sector remained competitive. The Rehn-Meidner model operated as a Fordist mode of regulation, then, in the sense that it set wages according to the principle of *ex ante* integration, and it deliberately promoted productivity growth through technological innovation of the Taylorist labour process. But such innovation was not primarily ensured through an expansion of domestic aggregate demand. Rather, it was ensured through the "transformation pressure" the Rehn-Meidner model exerted on the Swedish economy (Erixon, 1994), and by the demand-pull of the international economy.

But as a consequence of the logic of the Rehn-Meidner model, Sweden's international dependence was not only due to its economic structure, but also because of its economic policy paradigm. Because of its emphasis on profits-squeeze and transformation pressure, Swedish macroeconomic policy depended on external aggregate demand expansion to ensure full employment. This was provided by the demand pull of an expanding international economy and the reconstruction of Europe, first bolstered by the Marshall Plan, and then by a progressive liberalization and expansion of trade (Olsson, 1993: 24-31). It is therefore not a contradiction that neutral, social democratic and corporatist Sweden has been an enthusiastic supporter of US-sponsored multilateral trade institutions such as the GATT and OEEC, and even has been a solid ally of Britain to an "inter-governmental", not "federalist", approach to European integration (see Urwin, 1995).

But the "embedded" dimension of American hegemony, expressed in the regulation of international finance was also important to ensure other aspects of Swedish regulation. The "double screen" of the Bretton Woods system, with its fixed exchange rate regime and its encouragement of quantitative credit and foreign exchange controls, ensured the capacity to fine-tune countercyclical policy, which the Rehn-Meidner model demanded to make compatible full employment and the profit squeeze. Quantitative capital and exchange rate controls made it possible to pursue an active countercyclical budgetary and monetary policy, while keeping exchange rates constant and, above all, while keeping interest rates relatively stable and low. This, in turn, ensured a credible price anchor for collective bargaining, consistent with solidaristic wage policy (Notermans, 1993; Ryner, 1996). First, low and stable interest rates and fixed exchange rates made it possible to set wages *ex ante* according to anticipated productivity and inflation developments. Second, low interest rates (together with a selective investment fund policy, tax policy, and the steering of pension fund savings to public housing construction also made it possible to ensure an adequate propensity to invest, despite the profit squeeze. Low interest rates also, of course, minimized distributive share to rentier capital, compared to productive capital and labour.¹⁴

Tripartite Forms of Representation and Regulation

I have described the socio-political basis of the Swedish Model and how it regulated the circuit of capital accumulation with due regard for legitimation. Most Gramscian and regulation theoretical accounts stop here (Jessop, 1990: 307-19). But this, in my view, is to treat the actual procedural forms of regulation too unproblematically. Following Bob Jessop's reformulation of Poulantzian state theory (*Ibid.*) I suggest that, in modern capitalism, regulation takes place through

a complex ensemble of specialized agencies bestowed with certain authorities and functions. This complex ensemble is itself a contradictory unity whose internal regulation and cohesion need to be explained rather than presupposed. It is important to acknowledge the "autonomous" efficacy of these forms and their selective biases on outcomes. It is in the context of these procedural forms that social forces are politically defined, are included or excluded, raise demands or pursue policies, exercise power or are regulated. Political subjects tend to be prisoners of these procedures, that are crystallized in stable historic blocs. In the "formative events" of organic crises, subjects can also significantly shape them. But also then, the legacy of old forms of regulation tend to play a significant role.

The mode of regulation, which mediated the accumulation and legitimation imperatives discussed above, was encoded through a national tripartite (or democratic-corporatist) state. Tripartism, as a special variant of the capitalist state has a particular dual form of social representation (Jessop, 1979). Forces of civil society are here indirectly represented in two ways. Firstly, *individual citizens* (abstracted from social stratification (Poulantzas, 1978)) are represented through political parties in Parliament. Secondly, *functional interest representation* is granted to the peak organizations of labour and capital. The latter have been bestowed with direct representation in the policy process, in exchange for not pursuing their individual interests in a manner that disregards the socially constructed "general interest". The interest groups "assume social responsibility". Moreover, different branches of the formal legal state represent different social groups through their function in the policy process.

This definition of the institutional forms of tripartism is intended to clarify the nature of separation and connection between the mode of regulation of the state and civil society: Political discourse of civil society, and the power resources of social subjects, create general political constraints of legitimacy for

state action. However, those constraints are channelled to the mode of regulation only through the available modes of representation. This creates a "relatively autonomous" space for policy making and policy discourse informed by, for example, economic theory. Autonomy implies that policy discourse is not identical in form and substance with the "national popular" discourse of civil society. Relativity of autonomy implies that policy outcomes cannot contradict the national popular discourse in the long run, without a crisis of legitimation. The forces of civil society can sanction "illegitimate" policy through the election process and the party system, as well as through sanctioning the peak associations of their interest groups. Capital can also sanction the policy process through capital flight. In instances of political crisis, social forces may also sanction policy through illegal means, such as wildcat strikes. At the same time, modes of regulation, and the state more generally, have been chief vessels through which a hegemonic power bloc is organized. The state contributes significantly towards the construction of the very identities of social subjects, as well as hegemonic social paradigms (Jenson, 1989: 236-40).

Representation in the tripartite state is unequal (Mahon, 1977: 170-74). The various state agencies are organized in a hierarchy of "contradictory unity" for the purpose of social, political and economic mediation. The agencies at the apex of the hierarchy serve a integrative function, and subsidiary agencies serve specialized functions. The relative degree of representation of social subjects depends upon the position of agencies within the hierarchy of the agencies to which they have access. Moreover, the degree and quality of representation depends upon the *form* of access. The state does not reflect the special interests of any one group transparently. Rather, demands in a liberal democratic state must be articulated by state agencies in terms of a policy discourse concerned with the "general interest". But some social forces may have access to these

agencies in a less mediated manner than other social forces, and therefore can more directly define the manner in which they are encoded in the state (their "power to name themselves" (Jenson, 1989), and the terms policy discourse and substance. The unequal structure of representation is therefore also a function of the form of access different social forces have to state agencies. In the capitalist state, the "general interest" of "managing the economy" serves primarily subjects of capital, because of the formal separation of politics and economics and their privileged position in the social relations of production. They exercise structural power. Marginalized social subjects have no or little representation in the state, but rather are viewed purely as *objects* of regulation. Insofar as the state socializes social subjects, all social subjects are to some extent objectified by the state. But some are less objectified than others, and through less repressive means.

On this theme, it should also be noted that, especially in corporatism, state regulation extends beyond the formal legal state into civil societal interest groups. This means that the power of members of interest organizations to name themselves, and their interests in their own organizations is compromised by the need to "take social responsibility" (Panitch, 1979). Officials in unions and employers' organization then have to delicately balance their role to legitimately representing their members and their role of social regulation, defined by corporatist agreements.

The interactive policy routines of wage determination, labour market policy, macroeconomic policy and general welfare policy constituted the core of the postwar Swedish mode of regulation. The discretionary private rights of private business in production and investment decisions, and the right of management to manage were ensured. However the environment in which capital operated could be shaped by market regulation, general and selective economic

policy, and collective bargaining. As argued in the previous section, the "embedded" nature of the economic structure, as well as the national territorial fix of production and financial circuits (as opposed to trade circuits), were crucial in this regard.

The Ministry of Finance was located at the apex of this mode of regulation. Its ability to pursue an active macroeconomic policy was ensured through a stable party system, with the SAP as the "natural party of government". While the aims and instruments of the Rehn-Meidner model were not shared by other parties and groups outside SAP and LO, there was a common macroeconomic policy discourse, based on the theories of the "Stockholm School", that expanded beyond the party boundaries. Effective control over the Central Bank (Uusitalo, 1984; Notermans, 1993), and a "special relationship" in cabinet between the Prime Minister and the Minister of Finance (Rehn, 1977) were also crucial in ensuring the pivotal position of the Ministry of Finance.

In capitalist states it is typical that subjects associated with the dominant fractions of capital have privileged and more direct access to the Ministry of Finance. This was not the case in postwar Sweden. LO and the employers' federation (SAF) seem to have had indirect access on relatively equal terms. In tripartism, capital maintains a privileged position in terms of structural power (e.g. Offe and Wiesenthal, 1985), but this was balanced by the fact that trade union officials participated in the formulation of policy through the channels of the Social Democratic party (Pontusson, 1992: ch.3; Åmark, 1989), which is expressed by the fact that it actually was LO-economists that formulated the economic policy paradigm. But the inability - and unwillingness - of the Ministry of Finance to transparently represent labour is highlighted by the fact that they interpreted ambiguities in the the Rehn-Meidner model slightly differently (e.g. Martin, 1984; Sweden.SOU, 1955: XIX).

This tension between macroeconomic managers and unionists stem from their different perspectives of the relationship of wages to their policy ends. For macroeconomic managers, too high macro-wage levels may endanger balance of payments (through high relative unit labour costs). For unionists too low wage increases are of course a bad thing as such. But moreover, they may jeopardize "external wage levelling", and make it possible for individual entrepreneurs to offer market-determined extra wage increases (wage drift) that may undermine the "moral economy" (the socially constructed norms of relative wage relations), and threaten organizational unity and legitimacy within the labour movement. As a result, the Ministry of Finance tended to favor more general expansionary policies, higher profit rates, and "wage restraint" than the LO. The latter tended to argue for moderation on aggregate demand expansion and more emphasis on selective policies.

Other important agencies of social representation have been the Ministry of Social Affairs which was charge of the creation of an institutional welfare state, and the Labour Market Ministry and the tripartite Labour Market Board (AMS), in charge of implementing the selective labour market policy that the Rehn-Meidner model prescribed. These agencies provided intra-state channels of representation that constrained the Department of Finance. But at the same time, they were disciplined by the Department of Finance. The tensions I have in mind here are rather straightforward: Specialized ministries seek to maximize the resources to pursue their policy ends, and the Ministry of Finance tries to enforce a budget constraint. Cabinet meetings and the budget negotiation process constitute the main channels of communication between the agencies in question.

"Representation of labour" begs the question "which labour?". In the "golden-age" of the Swedish Model the answer was clearly the male provider of a nuclear family, employed in a Fordist/Taylorist corporation. Implied in this was a

particular, narrow, interpretation of the central aspect of Social Democratic ideology. "Integral democracy and de-proletarianization" (Tilton, 1988) was interpreted in terms of full employment, rising real wages, basic income and welfare entitlement security, indirect representation through the liberal democratic state, and through trade unions. More participatory understandings of these terms, such as industrial democracy were peripheralized, or were abstracted to some promise for the future. Questions concerning patriarchy and the sexual division of labour were not acknowledged as questions pertaining to unequal power relations and social inequality. Thus the nuclear family, with its hierarchical social relations, would serve a crucial role in the social structure of accumulation, in which the Taylorist worker would be reproduced. This notion was reflected in the types of incomes support, and housing policies promoted by the welfare state. The point is not that these programmes were not comparatively generous (they were), but rather that they assigned women as domestic workers a subordinate role, and served to socialize a particular conception of gender relations without meaningful input from subjects representing the socially subordinate gender, women (Hirdman, 1992; Jenson & Mahon, 1993). Moreover, the hegemonic discourse did exclude questions on the environmental effects of mass production/consumption, and the implications on low-growth regions of economic "rationalization".

Nevertheless, it was possible to contain the potential tensions within this complex of state-society relations during the postwar "golden age". High demand for Swedish exports contained the potentially competing objectives of large real wage increases and union unity, and a rapid expansion of the universalist welfare state on the one hand, and the maintenance of cost competitiveness and full employment on the other. Thus, relatively harmonious working conditions were ensured between the various branches of the labour movement that were in

charge of respective functions (LO, and the Social Democratic state managers and personnel located in, respectively, the Labour Market Ministry, the Ministry of Social Affairs, the Ministry of Finance). Peaceful industrial relations between business and labour were facilitated. Moreover, subordinate groups and identities were either marginalized, or were successfully integrated within the expanding welfare and consumer-society. Consequently, the welfare state could be developed and operate within the terms set by social democratic hegemony.¹⁵

IV...AND ITS CRISIS

The Swedish crisis has unfolded synchronously with world order developments, but with its distinct dynamics. Social antagonisms generated by the contradictions of Fordism initially triggered the crisis, which began as a crisis of representation and legitimation in the late 1960s. Further social reforms were implemented to address this crisis. But they could not be rendered compatible with changing economic conditions, and the crisis became one of capital accumulation in the mid-1970s. Social reforms provoked a counter-mobilization on the right, and a hyper-liberal project has been advanced under the leadership of SAF since this time. Though this project has failed to supplant the "common sense" of social democratic hegemony altogether, it has mobilized a sizable part of the middle class. More importantly, SAF has rendered tripartite regulation inoperative, simply by exiting from its fora. Its capacity to successfully do so reflects the increased structural power of Swedish capital, which resulted from a process of market driven economic restructuring in the 1980s. This process was facilitated by a social democratic economic policy that, in the context of this "blue wave" became increasingly informed by compensatory liberalism. Economic restructuring in the 1980s ensured short term stability and a revival of export-competitiveness. However, there was no resolution of the deeper problems of accumulation and a crisis of labour representation and legitimation re-emerged. The crisis has been amplified in the 1990s. Economic imbalances re-emerged with a vengeance in the recession 1991-93. In addition, neo-liberalism in all its variants has been discredited in popular discourse, and cannot mobilize sufficient popular appeal to stabilize regulation. But the increased structural power of capital and business strategy makes it much more difficult to pursue alternative accumulation strategies. Sweden's present situation is symptomatic of the impasse of compensatory neo-liberalism.

The 1970s: Social Protest, Reform and Stagnation

The first phase of the crisis was catalyzed by the radicalization wave triggered by the Vietnam War. Two characteristics of Fordist development were particularly important in defining the *habitus* of this phase: the generalization of the wage relation and the rationalization of the labour process. But a radicalization of discourse in media and civil society served to generalize the political significance local antagonisms, and this generated a crisis of labour representation (Schiller, 1988). The critical turning point was a wildcat-strike wave in 1969. The main causes of the strike was alienation in the workplace, uneven wage increases, a perception of excess profits in expanding firms where workers did not get their "fair share", and uneven regional development (Simonson, 1988; Swenson, 1989). The question of uneven wage distribution was exacerbated by a fragmentation in the wage-determination regime, and this also made solutions difficult to achieve within the institutional boundaries .

White collar workers were not organized by the LO, but by separate, looser organized confederations (TCO and SACO), and they did not accept the principle of solidaristic wage policy. This mattered little for overall economic regulation in the 1940s and 1950s. But the Taylorist separation of conception and execution, and welfare state expansion, led to growth in the relative size of the white collar strata (the "service economy"). Apart from fragmenting bargaining into separate blue and white-collar "rounds", this also implied a procedural separation of wage bargaining in the export oriented- and domestic (welfare) sectors (Martin, 1984; Fulcher, 1991). The quantitative expansion of salaried employment rendered more serious a long-standing conflict between the LO collective and TCO and SACO. But the expansion of the welfare state made the situation even more complex, since it had led to a feminization of the labour force. It was primarily

women who were recruited to part-time service jobs (Baude, 1979).

In effect, welfare state expansion implied a partial transformation of reproductive relations from an "informal" patriarchal family mode to a bipartite labour mode (Cox, 1987: ch. 1). In this context, the TCO unions that were organizing women became a faction that pushed for solidaristic wage policy. But moreover women's groups demanded further welfare reforms to ease the "double burden" of wage- and family work. They, as well as the blue collar rank and file militants, began to challenge the terms of the old Model by pointing to its inadequacy in relation to its own high aims of social equality, inclusion and democracy (Jenson and Mahon, 1993).

These developments made it increasingly difficult for the existing tripartite structures to adequately represent labour, because they were becoming inadequate in reproducing the moral economy as understood by workers. In part this was because the meaning of the moral economy was being redefined to include gender equality, industrial democracy, and regional economic balance. But in part it because because of the difficulties of coordinating bargaining that now was fragmented into three major bargaining rounds, which was in contrast to the situation in the 1950s and early 1960s, when LO's and SAF's chief negotiators effectively could set the macroeconomically relevant wage norms for the entire economy. These development also put a strain on the capacity of the tripartite structure to ensure the competitiveness of the Swedish export sector in the context of the fixed exchange rate system, since leap-frog bargaining increased inflationary pressure.

A number of initiatives were made in the tripartite context to respond to these challenges. SAF took the initiative to formalize the economic parameters of wage-bargaining between the export- and domestic sectors, and invited TCO and LO to work out a macroeconomic model. This resulted in the "EFO-Model",

formulated by economists of the three organizations (Martin, 1984). The unions responded to the grievances of the rank and file by lobbying for legislation on the work-environment and codetermination, as well as collective capital formation. Thereby they hoped to combine shopfloor participation with continued centralized solidaristic wage bargaining (*Ibid*; Simonson, 1988). Finally, the Social Democratic party, but also Liberals and Agrarians, pushed for further expansion of social services and benefits and regional development (Olsson, 1987).

The early 1970s was a period of extended reforms. This reflected the conditional manner in which Swedish society had been interpellated into the Fordist compromise. When the crisis undermined the latter, the specific terms of the Swedish compromise led to a rather radical leftist response. The ideology of the hegemonic party was open to, and even invited, such a response with its doctrine of a gradual socialist transformation. Prime Minister Tage Erlander tried to champion the radicalization of discourse. He talked of the "development of rising expectations" as something to be mobilized. Indeed, he argued that it was this that set social democrats apart from welfare liberals and their "end of ideology" thesis (Erlander, 1979; 1982). During this period, more resources were allocated to regional support and labour market policy. Industrial policy measures were taken, which included the creation of a state investment bank and increased leeway for pension funds to invest in equity (the 4th AP-fund). Parental insurance and daycare programmes were implemented. Finance for these measures were primarily raised by compulsory employers' contributions. LO's call for industrial democracy were heeded with a Codetermination Act (MBL), a Work Environment Act and Legislation of Employment Protection (LAS). Finally, a Public Commission on wage earner funds was set up. And in 1976, LO endorsed a radical version - the "Meidner Plan" - which would have done nothing

less but started a gradual process of socialization of Swedish capital. Internationally, it is in this period that Sweden's foreign policy stance becomes increasingly "idealist", for example with regards to the NIEO, the Vietnam War, and disarmament.

This wave of welfare reform, and the attempts to "bridge" what we retrospectively know as stagflation in 1974 and 1977 with fiscal expansion, have subsequently been blamed for Sweden's economic crisis. In particular the blame is laid at the feet of short-sighted "special interests" (read the unions) (Lindbeck et.al, 1994). I would like to challenge this prevailing neo-liberal thesis, which I think is damaging because it fallaciously dismisses the functional feasibility of these reforms in a radical "state capitalist" (pace Cox, 1987) direction. I do not think they can be ruled out as an ipso facto dysfunctional response to the Fordist crisis. This is not without significance if one is looking for egalitarian, and developmental-democratic alternatives to neoliberal post-Fordism.

It is especially important to note that, contrary to the neo-liberal thesis, there is no convincing evidence that allocative inefficiencies ("sclerosis") are at the root of the crisis. There is no evidence that "market distortions" have caused productivity decline (Sweden.SOU, 1991: 7-144; Wibe, 1993). Moreover there is no evidence of rigid wage formation and inhibiting workplace organization causing a poor allocative performance of the Swedish labour market. Indeed, studies, using a variety of indicators and methods, have continuously shown that Sweden's labour market allocates labour comparatively well (eg. Bosworth and Rivlin, 1987; Åberg, 1987: 76-84; Standing, 1988; OECD, 1989: 55-80; Holmlund, 1993). When confronted with, at best, ambiguities in their evidence, neoliberal economists tend to violate their method and make their case through an interpretative invocation the need for "flexibility" in the era of post-Fordism (see Calmfors, 1993: 122-25). From the point of view of critical political

economy, such implicit acknowledgements of the hermeneutic dimension of social science should perhaps be welcomed. But theirs are models that lack ontological depth and complexity. It is important to distinguish between different forms of flexibility, and in post-Fordism, micro-wage flexibility is not the most important form of flexibility, nor arguably even desirable. Functional flexibility, reskilling and a cooperative environment for technological diffusion is important, and here one of the legacies of the 1970s-reforms - codetermination - proved itself as a promising post-Fordist institutional form in the 1980s (Åberg, 1988; Standing, 1988: 126-47; Sandberg et.al, 1992; Sandberg, 1994).

Nevertheless, after the reform wave of the 1970s followed a crisis of capital accumulation, and while the 1970s reforms did not cause this, the economic crisis did mean that the reforms could not be adequately underwritten by export earnings. This, together with the fiscal policies of 1974 and 1977 that indeed were too expansionary, contributed to a derivative fiscal crisis.¹⁶ Underdetermining all this was an exceptionally severe loss of competitiveness in 1976 resulting from Sweden's particular form of Fordism. After having benefitted from the 1974/75 raw-materials boom, the stagflation crisis hit Sweden. It was enforced by the fact that Sweden's "narrow" export sector was disproportionately composed of firms producing in a late phase of the product cycle and in special steels, that became "price takers" rather than "price makers" (Erixon, 1984: 115-16, 123-24). The combination of factors had a devastating impact on profitability and the capacity to realize invested capital.

A significant international development was the collapse of Bretton Woods. As explained above, the Swedish Model could not generate sufficient aggregate demand for its full employment policies, but relied on the demand pull of the world economy. When this demand pull abated as other Western states abandoned their full employment commitment, and as Sweden's export sector

was hit by structural shocks, Swedish policy makers then nevertheless tried to "bridge" the shortfall through aggregate demand expansion. But this fragmented the domestic collective bargaining regime further, as it led to wage drift and leap-frog bargaining (Martin, 1984). Matters were exacerbated by the breakdown of the fixed exchange rate regime. Sweden initially joined the European monetary snake to retain a stable framework for economic policy, but withdrew in 1977 when the full employment commitment could not be rendered consistent with Bundesbank-led monetary policy (Sweden.Ministry of Economics, 1977). Since that time the Swedish currency was devalued at frequent intervals to compensate for the comparatively high price increases, that resulted from trying to keep unemployment lower than trade competitors. This might have seemed like a reasonable "tradeoff", but it further eroded the collective bargaining regime: During Bretton Woods stable exchange rates and low and stable interest rates kept the variables to consider in bargaining simple. Inflation could essentially be deduced from production cost increases. Since 1977, however, bargaining also had to factor in currency depreciation and other inflationary expectation. This, together with expansionary policies and internal fragmentation, rendered the effects of bargaining even more uncertain and inflationary. It must be underlined that these developments cannot be blamed on the Rehn-Meidner model. If anything, without the attempts to pursue coordinated and solidaristic wage policy, things would have been worse (Erixon, 1984). However, the abovementioned factors served to undermine its capacity to integrate accumulation, distribution, representation and legitimization imperatives. It is also not so that trade unionists were all short sighted in this context. LO's researchers and leaders were acutely aware of the need to further strengthen the institutions linking distribution with macroeconomic stability and growth, and they used their links to the SAP to try to do something about it. As early as 1960 LO argued for

the need to provide measures to increase savings and investments, in order to meet the day when the international boom would abate (Martin, 1984 cf LO, 1961). LO-economists were also keenly aware that the increased social consumption generated by the 1970s reforms had to be combined with increased capital formation, to ensure adequate levels of savings, investment, and production in Sweden. Quite correctly, they doubted the propensity of private capital to continue to play this role (eg. LO, 1971). But the measures intended to serve an integrative function between accumulation and expanded social consumption in the 1970s reforms were never implemented as a coherent strategy for capital formation- and industrial policy (Pontusson, 1992).¹⁷ One cannot know whether such a capital formation strategy would have been successful on a large scale if properly implemented and tried. At the same time, subsequent facts cannot be taken as evidence that the radical social democratic strategy envisaged in the 1970s was economically unfeasible, because it was never tried. What can be said is that the partially implemented reforms were unfeasible in the context of Fordist crisis. They emphasized only the social consumption-side, and did not address the attendant need for a radically reformed mode of regulation, capable to mediate consumption with capital accumulation.

Why did a coherent economic strategy not materialize? Politics internal to the social democratic movement provides a part of the answer. LO and SAP, never seriously attempted to build a hegemonic project around collective capital formation, which was required because it actually did imply a violation of the terms of the postwar compromise. Capital formation politics was popular in the immediate blue collar ranks, but LO never managed to convince the rest of the social democratic movement that it was worth the electoral risks to mobilize around the issue. In particular, they failed to develop an alliance with cadres in the municipal arena/social welfare sector. It was not apparent to these cadres in

the 1970s that there was a problem of capital accumulation. This isolated LO in their dealings with the macroeconomic managers in the Ministry of Finance, who represented the SAP in deliberations concerning capital formation politics. Though they were not always outright hostile to collective capital formation, they were much more cautious and skeptical - and also more optimistic about the prospects of resolving economic difficulties through incomes policies (Ryner, 1996: ch.6). This is also the route social democrats would choose in the 1980s.

The 1980s: Neoliberalism, Restructuring, and Impasse

One should not underestimate the sense of weakness in business circles during the height of the "red wave". After LO endorsed the Meidner Plan, SAF actually prepared a counter-proposal for collective capital formation - the so called "Waldenström Report" - whose funds would have been much more potent than the midget version that, despite everything, was passed in 1983. A more strategically coherent labour politics might have taken better advantage of this. But instead, the political and economic pressures on Swedish capital - the profit squeeze, increased employers' contributions to finance social consumption, juridification of the labour process, and an outright challenge to private ownership of the means of production - triggered a change in the ideological and strategic orientation of SAF. Behind this change lay a shift in the internal balance of power. Small entrepreneurs had long had grievances against the policies of tripartite accommodation. Their increased activism, as well as SAF's setbacks in the 1970s, also politicized the SE-Bank/Wallenberg sphere. This sphere had only reluctantly conditioned themselves to the "historic compromise". But henceforth it took on a leadership role within SAF at the expense of the Handelsbank sphere, within which one finds those on the business side that actively supported the Swedish Model. This development also implied a shift to more direct member

representation of entrepreneurs, and less discretionary autonomy of SAF functionaries (Schiller, 1987: 124-28, 135-38; De Geer, 1989; Ryner, 1996).

A turning point for SAF was the appointment of Asea's Curt Nicolin as Executive Director in 1978. This appointment has been described as a "culture shock" by senior officials of the organization (Schiller, 1987: 137-38; Ehrencrona, 1991: 257). Since then, SAF's orientation has become increasingly hyper-liberal. SAF assumed a position of total non-accommodation in the Public Commission responsible to iron out a compromise on wage earner funds, and the Waldenstöm Report was shelved. Attempts to overcome differences with LO on wage levels and the status of "collective savings" in the EFO-model were abandoned, as was a centralist bargaining strategy in general. The new premise was that it was more beneficial to exit than to have a voice in corporatist forms of bargaining. By January 1992 SAF had unilaterally exited from all such arrangements (SAF, 1991: 9-18; 147-65). In terms of the framework outlined in the previous section, this can be understood as a demand for a less mediated form of representation (Ahrne and Clement, 1994), and less state autonomy in relation to the structural power of capital. This is also reflected in the abovementioned changes within SAF itself, which is notably expressed in the abolition of its Central Bargaining Directorate.

In addition, at this point SAF began to assume the role of an aspiring "hegemonic party" (Clement, 1992), attempting to shape intellectual and popular discourse and the terrain of contestability in civil society in a market friendly direction (Schiller, 1987: 46-47; 148-49). Although this strategy has fallen short of realizing a Thatcherite national-popular hegemony in Sweden, it has nevertheless been quite a success. It ensured the defeat of wage earner funds in the electoral arena. More broadly, it has made neoliberal ideas popular in the middle class strata, which is reflected in the successes of the Moderates (the neo-

conservative party) and the rightward shift of the Liberals on economic issues. The subsequent shift in the substance of economic discourse in Sweden also took place in the context of strategic business funding of economic research (see Grassman, 1985)

The hyperliberal turn of SAF marked the beginning of a third phase of crisis. But apart from this, there were also decisively important changes in the social democratic movement. There was a "retreat" from radical capital formation policy (Pontusson, 1987). But more importantly, social democratic macroeconomic managers began to pursue an economic policy informed by compensatory neo-liberalism. The economic policy of the Social Democrats 1982-1990 was coined "the third way" (between Thatcherism and the Keynesianism). It was initially construed as a return to traditional Social Democratic politics, after the radical wave of the 1970s (H. Bergström, 1987; Åmark, 1988). The structural and profitability crisis of the export sector, the external and budget deficits and debt, and the lack of productive investments, would be addressed through a one off devaluation, combined with a tight fiscal and domestic monetary policy, active labour market policy and an implicit incomes policy. The intention was to create an export led recovery and economic regeneration, and a substitution-effect that favoured private investment in the export sector over public and private consumption. Together with a moderately restrictive fiscal policy, this was meant to increase total tax revenues and stabilize the economy while ensuring full employment and the existing levels of social benefits and services. The strategy presupposed selective labour market policy measures and that a coordinated restraint in collective bargaining would be sufficient measure to contain unemployment and inflation (Ryner, 1994). Despite all the difficulties to achieve the latter, given the fragmentation in the collective bargaining regime, some favorable developments provided some prospects for

success. TCO had converted to the solidaristic wage policy principle, and this increased the chances of joint coordination with LO to contain leap frog bargaining. Thus, conditions that might have resurrected a coherent bargaining regime were not absent (Ahlén, 1989).

Helped along by the "Reagan boom", the strategy was initially remarkably successful in meeting its aims of competitiveness, profitability, investments, macroeconomic stability and full employment.¹⁸ However, the policy ultimately faltered because of the long term GDP- and productivity growth were not realized, and the implicit incomes policy failed. A basic fallacy of the policy was the premise that increased private profits and investments would regenerate GDP and productivity growth. Despite increased profits, investments and paradigmatic labour process innovation in some enterprises, a dynamic "post-Fordist" growth and productivity trajectory was not realized, but these growth rates remained on the levels of the late 1970s (*Ibid.* 396). Apart from the success of pharmaceuticals, there was little growth in new dynamic sectors and enterprises. Instead the strategy benefitted existing firms, which had a "golden decade" despite the lacklustre performance of Sweden's economy (Erixon, 1989). These firms disproportionally located high value added activities in continental Europe.¹⁹ Apart from precluding domestic growth rates, this also led to large deficits on the capital account. This was either done for the "defensive" purposes of buying up competitors to ensure a price-making privilege (*Ibid.*). Or, foreign direct investments were part of an "offensive" strategy where the purpose was to achieve customer- and market proximity (Bergholm and Jagrén, 1985; T. Andersson, 1993), which is consistent with post-Fordist "just-in-time"-production.

This can be interpreted as a change in the territorial fix of productive capital, that changed the relation between domestic wages/profits, investment and

productivity growth, and thereby further undermined the conditions presupposed by the Rehn-Meidner model. Most importantly, this form of post-Fordist restructuring has resulted in a relative peripheralization of the Swedish economy, as "its" multinationals reorganize themselves on a continental scale. It also produces a territorial non-correspondence between capital accumulation and state regulation. The structural power of capital is thereby increased, which supports SAFs new hyperliberal strategy. Alongside this "continentalization" goes a hyper-liberal post-Fordist strategy in labour process restructuring and wage bargaining. In the 1980s SAF began to pursue a "dualistic approach", arguing for micro-wage flexibility as a corporate instrument for management in the individual firms (Pontusson and Swenson, 1993; Mahon, 1994). Companies have become increasingly interested in creating a skilled, loyal, core work force, and a cheaper peripheral work force for low-end jobs. This corporate strategy reinforced SAFs reluctance to participate in tripartite arrangements, as did the increasingly transnational mode of operations, which implied that firms became less sensitive to Swedish macroeconomic instability (Erixon, 1984). A final factor in this context is the increased relative importance of the stock-market, rather than banks in Swedish finance, which has led to a relative breakdown in the cohesion of capital spheres. In part this is an effect of internationalization of production and finance, but it was also encouraged by financial deregulation, further discussed below.²⁰

It should be noted that the nature of economic restructuring promoted by this economic policy contradicted the implicit incomes policy, which was one of its central instruments. The mode of restructuring reinforced the incentives and capacities of capital to exit tripartite arrangements. Moreover, on the union side, combinations of higher rate of profits, and a lack of productivity growth, made it exceedingly difficult to resurrect coordinated wage bargaining, despite the

potential to bridge the LO-TCO divide implied in TCOs endorsement of solidaristic wage policy. As a result bargaining could not be adequately coordinated, and most certainly could not meet wage-cost targets set by the Ministry of Finance. Tight labour markets and high profits, combined with public fiscal moderation generated wage drift, uneven wage developments, and subsequent demands for leap-frog compensation. This undermined union cohesion and contributed to SAF's success in decentralizing bargaining. Workers do not join unions to have them demand less than employers are willing to pay, or to have them refrain from defending their members' relative or absolute real wages. White collar unions of professionals in the private sector were encouraged by employers to separate bargaining through various fringe benefits, profit-sharing schemes, and bonuses. And other unions were tempted to use the organizational clout an 80 percent union-density gave them to enforce compensation (see Elvander, 1988; Ahlén, 1989). Against this backdrop the contradictions between the unions' aim to reproduce a moral economy and the government's incomes policy generated conflicts between LO/TCO and the Ministry of Finance.

It is tempting to explain the failure of the "third way" with reference to the abovementioned economic-structural transformations and the expansionary effects of the devaluation. I certainly do not want to underestimate the importance of these factors. They are necessary parts of the explanation. But a structural explanation can only be sufficient if one somehow can show that an optimal strategy was pursued, given these structural constraints. I would contend that this is not the case, and therefore, also changes of agency and ideology within social democracy itself must enter into the explanation. A set of policy moves in 1985 are central to the explanation behind the severity of the crisis 1990-93, and they clearly express a change of orientation and outlook of social

democratic economic state managers.

The government deregulated capital and money markets in 1985, and this was followed up by a formal deregulation of foreign exchange markets in 1989 (that by then in large measure was de facto deregulated anyway). Moreover, the strategy in managing the public debt changed. Together with a vow not to devalue again,²¹ the government declared it would no longer borrow abroad directly to finance the debt or cover balance of payments deficits, but would rather only borrow on the domestic market (i.e. only issue bonds in Swedish crowns). This meant that in order to maintain balance of payments, the Swedish interest rate would have to increase to a level where private agents would hold bonds or other debt in Swedish crowns, despite the devaluation risk (Bergström, 1993: 159-60). The broader purpose of this so called "norms based" monetary policy, was to contain inflation by exerting market discipline on collective actors, such as unions and social service agencies in wage- and budget bargaining (Sweden.Ministry of Finance, 1985; Hörngren, 1993). In other words, the Ministry of Finance and the Central Bank deliberately sought to amplify the territorial non-correspondence between global financial markets and collective- and state bargaining, for disciplinary purposes. This is a variant of "new constitutionalism".

This can only be described as an attempt to redefine the terms of social regulation and representation in the tripartite state. In effect, the Ministry of Finance abandoned its support of solidaristic wage policy, since the effects of market forces on interest and profit rates which conditioned wage bargaining were to be maximized rather than minimized. The tendencies towards deeper commodification of the wage relation were thus enforced. As a result, the conflict between LO and TCO and the Ministry of Finance assumed an entirely different quality. The tensions that emerged between LO, TCO and the

government in 1982 were of the kind that emanated from ambiguities in the Rehn-Meidner. The conflict was no longer in regulation, but of regulation. LO and TCO did not consent to their marginalization, continued to demand support for solidaristic wage policy, and did not heed the "moral suasion" of incomes policy since there no longer were a coherent common moral framework.

An economic report written by LO's immediately after the deregulation indicates this (LO, 1986). It objected to the conjunctural effects of the deregulation of the capital markets: Since deregulation took place in what in 1985 had become a booming economy, they argued that private borrowing would increase the velocity of money and overheating would ensue. This would lead to severe inflationary pressures, and it would be impossible for the LO to restrict compensatory nominal wage demands. But more importantly, the LO-economists argued, deregulation of the financial markets and the new borrowing policy of the state necessarily implied that when the government subsequently would be forced to cool the economy, it could only do so at the expense of union members. Either a state sanctioned wage freeze, or an abandonment of the full employment commitment would be required. Interest rate increases would also increase the demand for high profits, and further undermine the prospects for solidaristic wage policy. Hence, LO argued, not only would deregulation lead to a wage-drift generating overheated economy, it also divested the government of all stabilizing instruments, except instruments designed to exert labour discipline.

It should be noted that these policy changes were not subjected to debate and approval in any party congresses or in the electoral arena. Only the Central Bank and the Ministry of Finance were effectively involved. It even seems that the Prime Minister was excluded, or excluded himself from the process. In his memoirs, then Finance Minister Kjell-Olof Feldt writes that when he pressed Prime Minister Olof Palme to give the final go-ahead on capital market

deregulation, Palme's body language becomes increasingly reluctant and hostile. and as Feldt thought Palme would veto the whole operation, the latter snapped: "You go ahead, I do not understand anything of that anyway!" (Feldt, 1991: 282). This uncharacteristic statement of a politician known for his charisma and self-assured intellect, speaks volumes on how monetary policy has become the exclusive arena of macroeconomic managers. Concurrently, just as these policies were implemented, the "third way" was still presented as a reformist socialist response to the crisis in opposition to neoliberalism (Palme, 1985). As a result the effects of the policy did not only generate difficulties with regards to labour representation, they could not be legitimated "ethico-politically" in the social democratic movement, nor in the electoral arena.²² It led to what has become known as the "War of the Roses" between the Ministry of Finance and the unions and social service cadres. The structural power mobilized by this form of rule has been effectively used to create a "crisis consciousness" at strategic junctures. Previously inconceivable decisions "to calm the market" have been taken in the context of rapid capital flight, including the decision to apply to the EC and to formally abandon the full employment commitment in 1990. But the lack of consent, as well as further economic overheating, implied that fragmentation in bargaining and wage push inflation was amplified rather than mitigated. Moreover, it was in the context of the "extraordinary measures" of a wage freeze and a temporary ban on strikes (that did not pass Parliament) that the electoral support of the SAP plummeted to a historical low, ultimately leading to a humiliating electoral defeat in 1991 (Ryner, 1994).

While sluggish economic growth and wage push inflation would have been the result anyway, it was this credit and monetary policy, as well as an under-financed tax reform in 1990 that accounts for the severe imbalances and the depth of the Swedish recession 1991-1993. As LO predicted an increased

money velocity did overheat the economy. Moreover a massive credit bubble developed, due to speculation in real estate. When the recession of 1991 lowered real estate values and led to loan defaults, this led to a virtual meltdown of the Swedish banking system. The banking system as a whole only survived through a transfusion of liquidity from the state that dwarfed most social expenditure programs in its magnitude. The recession also led to sharp increases of unemployment insurance expenditure as unemployment went from 2 to 8 percent, and revenue shortfalls, resulting from the tax reform and the economic slowdown. These were further exacerbated by Carl Bildt's Conservative government's commitment to tax cuts.²³ Against this backdrop, there was a heavy speculation on the Swedish crown in the end of 1992, which forced the short term marginal rate up to 500%, before the government had to give up and float the crown, which subsequently fell sharply in value. Interest rate increases and currency depreciation further exacerbated the fiscal crisis. The debt increased from comparatively low 45 percent in 1989 to approaching 100 percent of GDP in 1994 (OECD, 1994).

The increased exposure of Swedish debt to short term markets did not stabilize the economy, nor collective bargaining. But this did not mean that they were inconsequential in neoliberal restructuring. The so-called "crisis-packages", mentioned in the introduction, cutting back on welfare universalism have been in direct response to runs on the Swedish Crown (S.E. Olsson, 1993: 358-65).²⁴

One cannot but conclude that capital deregulation and the strategy to increase Sweden's interest rate sensitivity seriously backfired. The basic fallacy was that such a constitutionalist form of regulation would enhance incomes policy. But short-termism and speculative nature of the international financial flows totally undermined any predictability for bargaining. Moreover, it is quite remarkable that the Ministry of Finance could have thought that they could

stabilize bargaining by so blatantly violating the conditions LO require for wage coordination. One is tempted to suggest that the action social democratic macroeconomic managers expressed a "false consciousness" in this regard (with reference to the Rehn-Meidner model). What were the reasons behind the change of monetary policy? The immediate reasons behind capital market deregulation can be explained in terms of the cumulative erosion of the mode of regulation in the 1970s. Enduring inflation combined with low interest rates eroded the institutional capacity of the Central Bank to ration credit and control the money supply. Excess demand for debt was generated that could not be contained. A "grey" non-bank credit market of "finance houses" emerged and grew through the late seventies and the early eighties outside the framework of bank regulation. Initially the Central Bank attempted to respond through an extension of credit-rationing regulation. But further financial innovation rendered such regulation ineffective, and generated pressure from the powerful established banks for deregulation. When quantitative controls were abandoned, internationally determined interest rates, enforcing a discipline through the balance of payments constraint, was seen by the Central Bank as the only effective means to control inflation (Notermans 1993: 142-43, 145-46).

It should be noted, then, that there is a direct link between the failure to reform the mode of regulation in the 1970s, which led to inflation, and capital market deregulation. But this is not a sufficient explanation of the factors behind the monetary policy pursued. An alternative strategy to prevent inflation, favored by LO, would have been a more modest devaluation and/or to increased collective savings and investments, for example investment funds financed through "excess profit" taxes (such funds would have resembled 4th AP-fund, the Waldenström Report or joint LO/SAP wage earner fund proposal of 1981). One reason why this strategy was not pursued was that the state managers believed

that deregulation was synonymous with increased allocative efficiency of the credit market (Eg. Sweden.Ministry of Finance, 1984/85; 1985/86). This indicates a subjectively contingent neo-liberal social purpose. Such a social purpose is also indicated by the utilitarian reasoning behind the borrowing strategy (Hörngren, 1993; Sweden.Ministry of Finance, 1985), which in sharp contrast to the Rehn-Meidner model, fallaciously assumed that market norms would stabilize wage bargaining. This policy selectivity and forgetting of basic elements of the Rehn-Meidner model, then, only makes sense with reference to the increased appeal of neo-liberal economic discourse among social democratic state managers in the Ministry of Finance. But why do social democratic macroeconomic managers become compensatory neo-liberals?

Can one explain this ideological development with reference to participation in the type transnational élite fora discussed in part one? Their relevance should not be dismissed, Swedish Central Bank and Finance Ministry officials participate congenially in the BIS, OECD, and the IMF. But while, the global dimension is crucial to understand the neo-constitutionalist *form of rule* of the norms based policy, the causes to social democratic neoliberalism are not primarily found in transnational fora. While appreciating the exchange of experiences and ideas on technical implementation, these fora confirmed rather than transformed perspectives formulated on the domestic arena (Ryner, 1996: 257-59). Hence no transnational convincing was necessary, state managers were already open to these types of ideas. Another explanation stresses the role of business sponsored think tanks in spreading neoclassical economic policy advice (eg Bergström, 1993). But, again, the problem with such explanations are that they do not account for why social democrats become receptive to neoliberal ideas in the first place. To make sense of this one must engage in a somewhat

more complex historical discourse analysis.

It is my thesis that this receptiveness is due to transformations in the *epistemic form* - that is that what determines what is a "serious statement" (Dreyfus & Rabinow, 1982 cf Foucault, 1970) and sets the boundaries of contestability - of policy discourse. This epistemic form changed among social democratic state managers through the postwar period, and it is an effect of a diachronic logic within the institutional forms of the Swedish Model itself (see Ryner, 1996: ch. 7 for a fuller elaboration).

First it is important to note that there is an elective affinity between the substantive recommendation in the Rehn-Meidner model for a restrictive macroeconomic policy and monetarism. This is an important bridge from one discourse to the other. Indeed, the policy makers in question insist that their policy signified a return to traditional restrictive social democratic policy after the 1970s (Sweden.Ministry of Finance 1984/85). But clearly, a restrictive policy for the purpose of containing wage drift and ensuring a profit squeeze for solidaristic wage policy is quite different from one that emphasizes market determined interest rate discipline. How does one explain this shift from a "Kaleckian" institutionalist-strategic to a neoclassical-utilitarian discourse?

The first phase of the shift is the breakdown of the reformist-Marxian-Institutionalist synthesis on "organized capitalism" that originally interpellated social democrats into the postwar settlement. This doctrine was highly conditional in its acceptance of capitalist market relations (Fredriksson, 1933; Sweden.SOU, 1935; Myrdal, 1946; Wigforss, 1971). It held that market relations should be replaced by planning arrangements if they could not ensure central social ends such as full employment. It was in fact even expected that market relations would progressively fail to meet this ends, justifying a gradual socialization. A Marxist conception of crisis was central to this pragmatic

doctrine. But the Marxist element was progressively displaced in the paradigm of regulation in the 1950s, as a new generation of social democrats came of age in the context of the postwar boom. This did not necessarily imply a substantive rightward shift in policy. Indeed, institutionalist reformers, whose main intellectual mentor was Gunnar Myrdal, could be very radical, and the Rehn-Meidner model was a product of theirs. However on the deeper level of epistemic form, this shift implied a change from a strategic conception of regulation, to a technocratic conception, emphasizing piecemeal social engineering and Popperian experimentation. Marxist crisis theory was eventually displaced and rejected altogether (see esp. Wickman and Pålsson, 1948).

This abandonment of the Marxist element facilitated, in turn, a broader interpellation and inclusion into social democratic discourse of yet another generation of social engineers in the 1960s, schooled in utilitarian variants of Keynesianism ("bastard" Keynesianism). Bastard Keynesianism allowed for an objective status of utilitarian individualism (eg Lindbeck, 1961; Feldt, 1961), that had been denied by Myrdal in The Political Element in the Development of Economic Theory (1928). The outlook of this generation had little effect on the mode of regulation as long as they held junior positions and as established policy routines were maintained. However, in the crisis of the 1970s and 1980s this generation had assumed senior positions at the "commanding heights" of regulation, and were in a positions to define the direction of the reformulation of policy routines, demanded by the economic crisis. After tendencies towards an LO-led resurrection of the Marxist-Keynesian synthesis in the 1970s (Korpi, 1978; Meidner, 1980), the "bastard Keynesian" discourse became dominant in the economic policy arena in the late 1970s and early 1980s. From this vantage point, the crisis of the 1970s was interpreted not as a crisis of capitalism, but as a Popperian falsification of Keynesian ideas, and a validation of monetarism, with

regards to inflation (see Feldt, 1994: 12-24). Hence, a central flank of social democracy was opened to compensatory neo-liberal ideas.

V. SUMMARY AND CONCLUSION

This article has understood the Swedish Model as having presupposed, on the one hand, a domestic historic bloc under social democratic hegemonic leadership, and the embedded liberal world order of Pax Americana, where Fordist accumulation constituted the economic basis. The crisis of the Swedish Model and social democracy has been interpreted as an effect of transformations that have undermined these coexisting blocs.

Significant aspects of the crisis manifest themselves as increasingly powerful structural constraints on social democratic politics. The crisis of Fordism and attendant transformations of Sweden's productive structure and position in the international division of labour are fundamental in this context. The Swedish Model was always dependent on the export performance, and this imperative was enforced by the increase in social consumption that followed the reform wave of the early 1970s. However, though the economic stagnation of the mid-1970s were not caused by these reforms, the stagnation meant that the latter could not be underwritten through export earnings and growth. Despite a short term economic recovery 1982-84, the Swedish economy has continued to suffer from sluggish growth and has not found a new dynamic growth trajectory. Now, the problem is not some microeconomic inefficiency or "sclerosis", but the internationalization of production and the disproportionate relocation by Swedish firms of core economic activities on the European continent. The essay has also demonstrated that structural transformations have undermined the institutions of economic regulation of the Swedish Model. In particular one can highlight the increasingly fragmented mode of bargaining, but more significantly the breakdown of domestic as well as international arrangement of credit and monetary policy. Finally, the changing orientation of an increasingly transnationalized, market oriented and hyper-liberal Swedish business elite

manifests itself as an external constraint on social democratic strategy. The latter has increased the forces of neo-liberal transformation simply by exiting from corporatist arrangements. This is in part an expression of the increased structural power that territorial non-correspondence has given business. But it is also a manifestation of the success of SAF and other political bodies to reshape the terrain of contestability in economic policy.

The importance of these imposing structural constraints notwithstanding, an explanation of the crisis of social democracy is not complete without a complementary analysis of the strategic failures and transformations within social democracy itself. A structural explanation, which denies the efficacy of agency altogether, would only be sufficient if one somehow could show that social democrats pursued an "optimal strategy" in the pursuit of their ends. This is not the case. I would highlight two instances where social democrats might have "acted otherwise". First, while the Meidner Plan for wage earner funds might have been too radical to be politically feasible, an alternative scheme based on a compromise between SAF's "Waldenström Report", and LO/SAP's proposal of 1978, could have provided a significant pool of national and social capital (this would in effect have implied a much larger variant of the 4th AP pension fund). This might have provided a channel to control liquidity, and to transform the profits generated by the devaluation of 1982 into productive investments to support a more egalitarian type of post-Fordist development.²⁵ It is noteworthy that social democrats did not even really try to mobilize to make wage earner funds an issue of hegemonic struggle. Fatal in this context was the inability of unionists and cadres in the social welfare sector to forge an alliance to push for this. The latter, who in the 1980s and 1990s have suffered the most under neo-liberal restructuring were if not altogether hostile, non committal to wage earner funds. The second instance I would like to highlight is the implementation of the

"norms based" monetary policy in the mid-1980s, which was based on explicit neoliberal neo-constitutionalist premises. This policy triggered a moral rift between the unions and the government and undermined all possibilities for the incomes policy that the devaluation strategy of 1982 presupposed. Deregulation of capital markets also contributed to overheating, speculation, and the financial crash in 1992. Hence, the downturn and the attendant fiscal imbalances became much more severe than it would have needed to be. Why did social democratic state managers become neoliberals? I have suggested that their openness to neoliberal ideas were the result of an increasingly technocratic form of economic policy discourse at the "commanding heights" of economic regulation.

What are the implications of my study for the prospects of resolving the crisis of social democracy. Since contingency and political choices do play a significant role in the crisis, and since social democratic norms continue to be potent at the level of "common sense" in Swedish civil society, I would argue that it still is fruitful to entertain such questions. But, given the structural constraints, how would a feasible solution look like, that could adequately balance accumulation, regulation, representation and legitimation? While a conclusive answer on this topic lies beyond the scope of this article, I would like to end by laying out the direction for how one might think about this:

Micro-level studies have consistently shown that what Leborgne and Lipietz (1988) have called a Kalmarist/negotiated involvement type of post-Fordism, based on solidaristic wage norms qua the Rehn-Meidner model, micro-level codetermination and job-sharing, is a viable basis of for an alternative accumulation trajectory. The problem is to realize a viable mode of regulation. To be adequate, such a mode would have to find a way to counteract the peripheralization of Sweden's productive structure, and to compel Swedish employers to re-enter corporatist arrangements. This is not possible given the

present structure, power relations, and strategies pursued in the Swedish export sector. The relative role of the "traditional" transnationalizing corporations would have to be displaced in favor of more territorially fixed firms, willing to adopt "Kalmarist" production paradigms, that are producing in new core markets. It has been suggested that an industrial policy, based on the health, old-age services, and environmental-protection sectors might provide the basis for such a development (eg Andersson and Mjöset, 1987). This, however, would require a larger role of the public sector (eg pension and investment funds) in savings and investment (*Ibid*), and probably also in wage-formation legislation. An adequate mode would also minimize financial rents and speculation. This implies a credit and debit policy that minimizes the size of short-term financial flows. Examples of measures that might facilitate this include proactive borrowing and lending policies, where the state intervenes to mediate the foreign exchange needs generated by balance of payments deficits (eg Edin, 1993), foreign exchange transaction taxes (qua "the Tobin tax"), and entry into the EMU.

The EMU holds the promise of reduce the need for hedging and speculation on the foreign exchange markets, and therefore might reduce some of the material basis of the power of global finance. But the present terms of austerity of "Maastricht convergence" is not consistent with a full employment objective, and an alternative mode of regulation. As indicated in the first part of the paper, and alternative post-Fordist trajectory requires a "Keynesian" dimension of reflation to realize the productive potentials that new technology implies (see esp. Lipietz, 1989). This leads to the following strategic question with regards to the EU, that draws on my conclusion in the first section of the paper. Could Swedish and European social democracy take advantage of the reduction of territorial non-correspondence that EMU actually implies, and pursue alliances to promote macroregional and transnational reflation.

One of the most significant points of my research is that the Swedish Model always relied on externally induced reflation for full employment, and the attempts to substitute this with national reflation in the 1970s and 1980s were abject failures. An alternative EMU might potentially ensure adequate expansion of transnational liquidity to regenerate a stable, non-speculative, demand-pull for employment and productivity growth, while domestic policy might be held sufficiently restrictive to support solidaristic wage policy. Such an EMU might be insufficient in itself, but it might provide the catalyst for a united "European voice" that could compel and push the Americans towards a global monetary reform (see Strange, 1986: 170-93). Together with other policy elements - promotion of eg environmental-protection sectors, coedetermination, "soidaristic work-policy", such a monetary policy might become part of a new social democratic paradigm that also address some of the central deficits of the old Fordist one.

But such a mode of regulation necessarily implies a strategy with a significant regional and transnational dimension, and it would require a change of attitude of red and green political groupings in Sweden, who have assumed a very nationalist posture with reference to European integration. This might be an understandable reaction to what the EU actually is today. But it does not facilitate a feasible strategy, given the importance of territorial non-correspondence for neo-liberal discipline. Therefore, the future of Sweden's left is very much tied with building alliances within the EU, and take advantages of the contradictions of neoliberalism on the European terrain discussed in the end of part one. Exit and welfare nationalism is not an option.

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ENDNOTES

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² This is not denied by Cox (see 1987) and Gill & Law (1989) who adopt from David Gordon (1980) the term "social structure of accumulation". While being sympathetic to their attempt to thereby ensure a holistic conception of economics, politics and ideology, I prefer to operate with the regulationist distinction of "accumulation", "regulation", and "accumulation strategy". This is to better bring out the dialectical tension between production-technological potentials of accumulation and the actual constitution of accumulation through regulation.

³ *Ex ante* integrated wage-norms imply that wages for a given turnover period of capital are set before the production process begins. This ensures beforehand a given consumption market. Thus, risk is minimized, demand is stabilized and expanded according to anticipated productivity increases. This type of wage determination is said to have been pioneered with Henry Ford, but gained socio-economic significance through the collective bargaining regimes that were instituted in the Western countries in the Thirties and the Forties. This type of wage relation was functional to the rather rigid industrial system of mass production that resulted from Taylorist principles of organization of production (Piore and Sabel, 1984: ch. 4). Keynesian macroeconomic policy and Beveridge-style social policy also facilitated such a stable expansion of mass consumption. The principle of social policy attributed to W.H. Beveridge states that social welfare provision should be based on universal and equal citizen-entitlement. This principle lied behind heavy public investments in national health programmes and public housing in most western countries in the post-war period (Mishra, 1984).

⁴ Turnover time is the time it takes for a unit of capital advanced (M) to realize its profit (M'). "Post Fordism" essentially operates by rationalizing realizing economies of this the capital circuit, M-C-M', in various ways. Some sectors of financial capital involved in risk-management and speculation realize their profits (or losses) almost instantaneously (M-M').

⁵ This view was recently expressed by David Harvey at the conference "World Economy and Nation State: between Globalization and Regionalization," Institut für Sozialforschung, Frankfurt a. M., June 28-29, 1996

⁶ Embedded Liberalism was a compromise between the economic nationalism that had emerged in the West in response to the economic crisis in the 1930s and the free trade liberalism of the Pax Britannica era. While international multilateralism was affirmed, it would not be predicated on *laissez faire* economic philosophy. Rather, it would be predicated on domestic interventionism. For that purpose the international monetary order of the Bretton Woods was based in the principle of the 'Double screen'. Liberalization and expansion of international trade would be facilitated by the gradual abolition of exchange controls and a multilateral fixed exchange rate regime. However, in order to ensure that these imperatives for international trade did not debilitate the possibility of states to pursue Keynesian policies and a full employment commitment, the IMF system would finance short term payments of deficit countries from funds provided by membership contributions. (Due to the reluctance of the US administration to provide the IMF with adequate funds, this function would in reality be performed unilaterally by the US). In addition, the norms of the IMF stated that if "fundamental disequilibrium" developed, exchange rates could be altered with IMF concurrence. Finally, in this system, governments maintained the controls on capital markets that had been implemented in the 1930s and 40s. (Ruggie, 1983: 209-11).

⁷ Indeed, while he insists that Fordist modes of regulation were autocentric, Lipietz (1987: 31) calls this an "implicit (international) mode of regulation" based on a "vast catching up movement by Europe and Japan in relation to the United States".

⁸ That is, the dilemma of either restoring the domestic balance of payments equilibrium at the risk of triggering a world recession, or supplying dollars for the world market and exacerbating domestic inflation and balance of payments problems.

⁹ It could be argued that such self-interest policy is an expression of a lack of hegemony. But from a Gramscian perspective one must note that the US managed to pursue such policy with the consent of other states, and even diffuse its norms of post-Fordist restructuring to other states.

¹⁰ This is as long as a stable macroeconomic environment, supervision of international financial activity, and international lender of last resort functions are present to avert endogenously produced financial crises. According to Helleiner the "weak regime" of BIS is sufficient in this regard.

¹¹ According to Kalecki, full employment could only be sustained through ambitious public investment programmes and certain measures of selective planning, required to deal with the inflationary tendencies of bottlenecks. Industrialists, he argued, would resist such policy. They would oppose an extensive public investment programme in principle. They would also oppose a policy of sustained full employment, as it would eliminate the disciplinary mechanism of "the sack". On the other hand, they would favour the promotion of private investment through countercyclical monetary and fiscal policy in recessions, but align with rentier interests around the "peril of inflation" in booms. The result of this "political business cycle", Kalecki prophetically envisaged, would be a Keynesianism that fell short of a full employment commitment.

¹² According to Swenson, the basis of legitimacy for the organized action of trade unions lies in the historically and socially constructed norms of a "just pay", determined by the "moral economy". Drawing on evidence in the work of James Scott, E.P Thompson, and Charles Sabel on the subjective norms of peasant-workers, as well as providing ample evidence from his own studies of the advanced capitalist social formations of Sweden and western Germany, Swenson argues that commodification of labour power never goes so far as to make instrumental criterion of market supply and demand the legitimate form of wage determination among workers. Rather, workers always retain some moral notion of distributive justice regarding what they should be paid in relation to others. This moral conception of pay opens the space for unionism to take root. Unions can also to some extent mould these norms, but they break these norms at their peril.

¹³ The term "disarticulation" is borrowed from Samir Amin's version of dependency theory. Amin explains how a high degree of trade exposure in the core (autocentric as opposed to autarkic accumulation) is possible without leading to dependency and underdevelopment (extraverted accumulation). Anticipating Michel Aglietta's (1979) work perhaps, Amin defines autocentric development as the capacity of a social formation to counteract the overproduction/underconsumption tendency of capitalism, by expanding domestic demand in a manner which simultaneously counteracts the tendency of the organic composition of capital to increase. A necessary condition for this is that there is a synchronic expansion of productivity, particularly in the investment goods sector, and of real purchasing power. In this context, exports may be seen as providing a supplement to the domestic market, even at quite high levels of trade exposure, as long as a social formation can regulate the productivity-consumption relationship. According to Amin, the peripheral formations have never had this capacity because their technological potential for productivity increases is limited, and domestic demand is fundamentally disarticulated from supply (Amin, 1976: 76-78, 191-97)

¹⁴ The exception was United States, with significant foreign direct investments in Europe. On the other hand the United States is a country with very low export/import penetration and is certainly a country with an autocentric mode of growth.

¹⁵ A detailed account of the complex subsystem credit, tax and monetary instruments and policies of the postwar Swedish Model is beyond this article (See Pontusson, 1992; Notermans, 1993: esp. 156-57; Ryner, 1996: 123, 150-51).

¹⁶ Productivity growth in the manufacturing sector was 5.8 percent during 1957-1962 and 1969-1974, and 8 percent 1963-1968 (IUI, 1984: 367-70; Erixon, 1991: 245). The latter rate was exceptional, also with comparative OECD standards, and this productivity rate coincided with a comparatively low profit-rate and high wage equalization. (Ibid; Erixon, 1994: 31). Sweden's rate of unemployment was between 1 and 2 percent throughout the postwar period, and this was combined with a comparatively very favourable "Phillips-curve" relation in the 1950s and 1960s. A particularly good indication that stabilization policy was successful in regulating Sweden's disarticulated Fordist growth is the fact that the difference in variation of export and GDP growth was comparatively large in Sweden. (Ibid.) Sweden's record in reducing private and

social wage differentials and eliminating poverty is often cited (eg. Åberg, 1984; Olsson, 1987: 56-62). See the latter source on welfare state expansion in the postwar period.

¹⁷ Average annual productivity growth slowed down to 0.6 percent between 1973 and 1979. GDP growth slowed down to an average annual rate of 2 percent. Industrial production declined 6.2 percent between 1974 and 1982. Government net lending changed from +4 percent in 1976 to -6 percent in 1982. By 1982 Sweden had a foreign debt of 21.7 of GDP in contrast to the credit position of 5.3 percent in 1974. (Ryner, 1994: 387, 391 cf. OECD, 1983; 1985: 8-9; 1989: 11, 13)

¹⁸ The 4th AP funds and the very modestly sized wage earner funds that were implemented in 1983 and dismantled in 1992, have a good record as investors in productive capital, but on much too low a scale to have any macroeconomic impact. Paradoxically the industrial policy instruments implemented by the Social Democrats were used by the non-socialists to meet the crisis in the export sector, and the result of this has served to discredit the term in Sweden. This is not surprising, industrial bailouts was the major cause to the rapid increase in public deficits and debts in the 1970s, and these bailouts were seen as failures. These policies were defensive, ad hoc, responding to industrial and regional interests. According to Pontusson (1992), the institutional design did not allow sufficient steering and was vulnerable to pressure from individual industries. Tripartite bargaining on the general terms for industrial restructuring was never successfully implemented, and in contrast to the case of the labour market board, AMS, they acted as "buffers" against policy control rather than as channels of control. Moreover, in contrast to Japan and France the capital of the Swedish investment bank was too small to have sufficient capacity to effectively intervene in capital markets. In addition, no serious attempt was made to develop a coherent substantive strategy of development.

¹⁹ The trade balance returned to positive figures in 1982, and balance of payments was achieved in 1984, before net-invisibles (especially interest payments) and capital outflows (especially FDI), made the balance of payments deficit reemerge. Profit rates and business fixed investments rates were restored, and government net-lending was returned to +4 percent/GDP by 1987, without any major cutbacks of social expenditure. Unemployment never went over 3.2 percent in this period. (Ryner, 1994: 395-96).

²⁰ Swedish outward FDI remained around 1 billion SEK a year in the 1970 (Larsson, 1980), and increased slowly to 5 billions in the early 1980s. It then shot up dramatically and reached 80 billion SEK in the end of the decade. There have not been corresponding inflows, although there was an increase of such flows in the early 1990s. Portfolio equity-investment flows remained modest until the 1990s. At the same time investment income has been negative, thus there is (yet) no trend that profits on capital invested abroad is returned to Sweden. (See IMF, 1992 & 1995; Sweden. Sveriges Riksbank, 1988 & 1992). One indication of the relocation of high value-added abroad is the diverging rates of productivity growth in firms of Swedish MNC's in Sweden and in the EC. In the period 1986-1990, the productivity growth in the Swedish firms was -0.1, and 5.5 percent in the firms located in the EC. (T. Andersson, 1993).

²¹ The annual real value of the trade volume on Sweden's stockmarket remained at the levels of

the 1920s through to the 1960s. (The all time high of 1918 was not broken until the 1970s!). This dormancy, despite very rapid growth, reflects the bank-centred nature and centralized nature of Sweden's financial system. All this changes in the 1980s, especially after 1985, when the annual turnover increased from a couple of million Crowns (1985 prices), to over 120 000 million Crowns in 1990 (Erixon, 1991 cf *Affärsvärlden*).

²² Since 1982, the Swedish Krona had been pegged to a "currency basket", and in 1990 monetary policy was further tightened through a peg to the EMS.

²³ Indeed, a central theme in Feldt's (1991) autocritique is that the policy measures were not pedagogically explained and grounded in the movement.

The 1992/93 state bail-out of Nordbanken, Götabanken and Första Sparbanken cost SEK 67.5 billion (Brown-Humes, 1993). This equals the total 1991/92 budgets for the Labour Market and Defense Ministries. Sweden's employee health insurance system, with 100 percent coverage from the first day of illness, which was the focus of SAF's crusade against the unreasonable extravagant decadence of the welfare state in the late 1980s, cost SEK 8 billion in 1991/92 (Sweden.Ministry of Finance, 1992).

²⁴ For detailed analysis of the causes of the Swedish deficit, see Ljunggren (1993).

²⁵ One major cutback was already implemented by the social democratic administration in 1991, after a less spectacular run of the Crown: Daily sickness benefits for the first three days of absence were reduced from 90 to 65 percent of the wage. After the run of 1992, bipartisan packages were concluded by Carl Bildt's centre-right administration and the SAP, then in opposition. In exchange for non-socialist recindance to unilateral moves to privatization of public enterprises, and major changes to labour and social legislation, SAP agreed to support reductions of long term sickness insurance (after three days) from 90 to 80 percent the first year and 70 percent thereafter, and increase of the retiring age from 65 to 66, and to remove the entire system from the state budget to a bipartite arrangement (attenuating the universalism of the system). Since this time there have been further cutbacks of child allowances, parental insurance and unemployment insurance, both by the pre- 1994 non-socialist and post-1994 socialist administrations. The social democrats initially introduced an austerity package that protected the latter programmes (the Persson Plan", but as a result of the "Peso Crisis" of early 1995, they had to cut into these programmes as well. The principle that has been followed is that of sickness insurance: reductions from full compensation of wage-loss to 60-75 percent, and waiting days, and a return to employee contributions and user fees. Social services, as opposed to transfer payments have been less affected to date, but may be the next programmes in line. The Peso Crisis indicates the peril of exposing the debt to short term financial markets. Sweden had nothing to do with the crisis in question, but it nevertheless generated a massive selloff of Swedish bonds on the market. This was because high risk takers had borrowed short on American markets to invest in Swedish bonds in order to profit from interest differentials. However, when the American government presented the rescue package to Mexico, it cut into the margin of these investors and they divested from Swedish bonds. This, in turn generated an

accelerator-effect, as the value of the Crown deteriorated sharply, despite the fact that Sweden had made significant headway in terms of financial consolidation. (I am grateful to Dan Olsson, financial reporter for Tidningarnas Telegrambyrå, for helping me clarifying the relationship between the Peso Crisis and the 1995 run on the Crown.)

²⁶ We can only speculate on how effective such a strategy would have been, but it is hard to imagine that the result would have been any more disastrous to the Swedish economy than what occurred in the early 1990s. Moreover, Pontusson (1992), who pursues an argument similar to mine here, provides evidence that the limited wage earner funds that nevertheless were implemented, and the 4th AP pension fund, have a good record as investors in productive capital. On the prospects of an industrial policy based on spinoffs of the welfare sector, see J.O. Andersson and Mjöset, (1987).

**NEOLIBERAL GLOBALIZATION AND THE CRISIS OF SWEDISH
SOCIAL DEMOCRACY¹**

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